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IRS PLANS FOR SERVICE CENTER OPERATIONS IN 1986

COMPLETED
547

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

DECEMBER 16, 1985

Serial 99-71

Printed for the use of the Committee on Ways and Means

ORIGINAL

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IRS PLANS FOR SERVICE CENTER OPERATIONS IN 1986

MONDAY, DECEMBER 16, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room B-318, Cannon House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press releases announcing the hearing are at p. 47.]

Chairman Pickle. Good morning to all of you. We are going to call the subcommittee into session now. We are hopeful we might be able to finish this hearing by noon. We ask the cooperation of the witnesses and the Members.

I have a preliminary statement to make, and then we are going to hear from one of our colleagues, Congressman Gekas. We were scheduled to hear Senator Specter, but he may be late.

The Subcommittee on Oversight is continuing its series of hearings on the operation of the Internal Revenue Service. We began early this year with the "mystery of the missing tapes" in Philadelphia. In that case, 26,000 taxpayers paid over $300 million in taxes. Unfortunately, those tax payments were not recorded or "posted" by the IRS. We expected that this problem would be an isolated instance of mismanagement. Unfortunately, it turned out to be the tip of the iceberg that preceded the disastrous 1985 filing season.

Even today, almost 8 months after the final return filing date, over 25,000 taxpayers have not yet received their 1985 tax refunds. Further, late refunds climbed from 1.4 million in 1984, to currently 2.2 million in 1985. To date, interest on late refunds is $43.6 million and still counting. This is almost $16 million more for 1985 than paid in 1984.

To compound this problem, thousands of taxpayers were told to refile their tax returns last year because the originals were "lost," "misplaced," or "in the pipeline." From my own correspondence, I know that some taxpayers filed three or more times without getting satisfaction from the Internal Revenue Service.

Many Members of Congress have approached me with tales of constituents who have spent long periods of time trying to get through on the telephone to the Internal Revenue Service, only to be told the "computer is down; we can't do anything to help."

There have been stories—some proved and some not—about misplaced or destroyed taxpayer information. Nonetheless, evidence from the General Accounting Office, the IRS Internal Audit Division, and IRS officials in the field confirm that there were a number of cases in which these stories were all too true.

Well, the chickens have come home to roost—the 1985 filing season, by any yardstick, was an embarrassment, despite the long hours and hard work by many, many IRS personnel. It is our responsibility, this committee and the Congress, to assure that the Internal Revenue Service can avoid this situation in the future, particularly next year, 1986.

As subcommittee chairman, I have tried to cooperate and help the IRS. I have fought for more funds, for more personnel, and for enhanced computer equipment—all against a White House that wants none of these.

This Subcommittee on Oversight requested that the GAO make a searching investigation of our 10 service centers nationwide. These service centers are the hubs of the tax return processing system. They are responsible for the initial processing of individual and business tax returns. If there is a problem at these service centers, taxpayers will not get their refunds quickly, nor be able to get timely information about problems with their tax accounts.

The General Accounting Office has completed its detailed analysis of the 10 service centers. It is our desire to use this information to see what went wrong in 1985 and to determine what GAO recommends to assure a smooth filing season in 1986—a filing season that starts in less than a month.

After the GAO presents its findings and recommendations, we will turn to the IRS Commissioner, Hon. Roscoe L. Egger. I have asked Commissioner Egger to explain what corrective actions have been taken already, what additional steps are underway, and what taxpayers nationwide can expect next year after they file their tax returns.

I am hopeful that the Commissioner can give us a report that will restore our confidence in the ability of IRS to process the tax returns in a timely fashion.

Personally, I am fearful we will have this same kind of mess next year. I hope I am wrong.

Before we turn to Congressman Gekas and Senator Specter, I would ask if other members of the committee have any statements.

Mr. Schulze, do you have any initial statement to make at this point?

Mr. SCHULZE. Briefly, Mr. Chairman.

I do appreciate your calling this important meeting to hear from Commissioner Egger and his staff concerning the prospects for a trouble-free filing season next year. Suffice it to say that 1985 was not a very good year, but I don't think we ought to necessarily dwell upon IRS mistakes of the past, nor do I wish to point the finger of blame. I am afraid it is too late, especially for the thousands of unfortunate taxpayers who were victims of IRS computer goofs and mishandlings.

However, I am anxious to know what steps have been taken by the Service to ensure American taxpayers will not see a repeat of 1985. Of particular importance to me are what changes have been implemented by the IRS to improve taxpayer services and to ensure that individuals can expect timely receipt of tax refunds.

I am looking forward, also, to hearing from the General Accounting Office regarding its investigation of the 10 service centers and whether or not the IRS has overlooked any potential sleepers which could abort an otherwise successful filing season next year.

Last February, during this subcommittee's first hearing on tax posting problems, we were warned by one witness that IRS problems in Philadelphia could be the tip of the iceberg. Whether or not anyone agrees with the accuracy of that prediction, it is clear to me that IRS problems in 1985 were not confined to the Philadelphia Service Center.

Let us all hope that what we hear today is that the IRS has plotted a course for 1986 which will restore taxpayer confidence in the Service and moreover in our voluntary system of tax compliance.

Thank you, Mr. Chairman.

Chairman Pickle. Thank you, Mr. Schulze.

Our first witness this morning will be our colleague, Congressman Gekas. The Chair recognizes Congressman Gekas for 3 minutes. We will limit the Senator to the same time in order to be fair. We do want to hear the suggestions you have.

STATEMENT OF HON. GEORGE W. GEKAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

[The prepared statement begins at p. 67.]

Mr. Gekas. Will you start the time only after I finish my compliments to the chairman and the ranking member here?

I am very grateful to the chairman for according me this opportunity to speak for the committee and also for the previous accommodations that the chairman has made to allow me to get this movement going on my part.

Chairman Pickle. Thank you.

Mr. Gekas. Congressman Schulze has been very helpful, too, as he has from our days of the Pennsylvania Assembly in all matters I have concocted over the years.

Mr. Chairman, I am here to first submit a written statement which I ask one of you to gain unanimous consent to enter into the record.

Chairman Pickle. Without objection, it will be entered in the record.

Mr. Gekas. Mr. Chairman, I am here to ask your help and the subcommittee's help to end the great American nightmare—the great American nightmare that occurs annually on April 15. It is a nightmare for the taxpayers, and you have already alluded to that. It is a nightmare for the Post Office employees across the country. It is a nightmare for the IRS itself, who has to receive the bulk of its work in the last 2 weeks of the tax filing system.

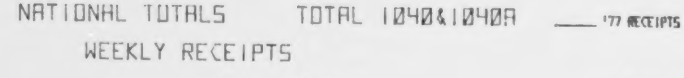
When these horror stories began to emanate across the country in various degrees, we learned from various sources that part of the problem was April 15. Roscoe Egger, when he came to my office—because I was anxious to determine what was it that was causing all these horror stories—Roscoe Egger himself told me, and I hope he repeats his problems to you—he will—he said that part of the problem is the crush of filings that occur in the last 2 weeks of the filing season.

In 1985, 100 million tax returns were filed, Mr. Chairman—100 million of them—50 million of which were filed in the last 2 weeks, between April 1 and April 15. There isn't an organization on Earth, no matter what kind of computers that are available, that can handle that amount of paperwork without some kind of solution being proffered.

One solution that I have, which can work—and I implore a full investigation of it—Secretary Baker, the President of the United States, and others, have already come forward to confirm the necessity of such an investigation, and I ask your subcommittee specifically to do so. You, yourself, said that you are waiting recommendations from various sources.

My plan, Mr. Chairman, would end this nightmare which appears graphically on this chart which shows that the filings of a given year show an increase immediately beginning on the 1st of January through the first couple of months, and then a dramatic increase, or peak, in April, on April 15, as you see here; and then the rest of the year the spread of filings is very minuscule. But, because of this peak, all these nightmarish things happen that I have outlined to you and, at the same time, that causes CPA's and other tax preparers to ask for extensions, and all other kinds of problems that you are well aware of throughout the balance of the year.

[The chart referred to follows:]



(Taken from "Report of Alternative Filing Systems Study Group," Office of the Assistant Commissioner, Internal Revenue Service, October 1977.)

Mr. **Gekas**. My proposal is a simple one. It would stagger across the calendar year the filing of income tax returns based on a birthdate or based on the last digit of a Social Security number that appears on the tax return itself, or on the last letter or the first letter of the last name of the taxpayers, or any system that would stagger it across.

The one that seems to be finding most favor, and the one easiest to apply, would be the last digit of the Social Security number that appears on the return and is part of the record as the filing occurs. That might be the best way to do it.

What would happen then is that the flow of filings would occur across the year, easily manageable. I would venture to say that after the first year we wouldn't have to pay one cent as taxpayers for interest on late refunds. No longer would we have that problem because, even though the refunds might be filed early in the year under my system or any system, that the ability to handle them without the necessity of handling the crush of the 100 million filings in April would enable a smooth process where all the returns, the refunds, would be made on time with no cost to the taxpayers.

There are some problems with it, but it is worth the effort. It is estimated—Mr. Chairman, this is the last admonition that I make to the subcommittee—that by 1990 or 1991, we will have 200 million filings. I deny anyone to come up with any kind of computer system that can alleviate the drastic measures that have to be taken every season around April 15.

I have gone over the 3 minutes.

Chairman **Pickle**. Well, I have stayed reasonably within the confines of that limitation, Mr. Gekas. We appreciate it.

You have an interesting suggestion and one which this subcommittee will look at further. We will get opinions from the Internal Revenue Service, from the Treasury, from the administration as well as examine this in our subcommittee at a later date.

I thank you for your interest. You have been very patient with us over the last couple of months in trying to advance this idea and to find a forum for it. We will be looking into it again.

We appreciate your attendance.

Mr. Schulze, do you want to make any comments?

Mr. **Schulze**. I want to thank our colleague for a very innovative and provocative idea, one we will investigate thoroughly and keep him abreast of our deliberations.

Mr. **Gekas**. Thank you very much.

Chairman **Pickle**. Thank you, Mr. Gekas.

Our first witness this morning will be the representative from the General Accounting Office, Mr. Johnny C. Finch.

Mr. Finch, if you will come forward and have a seat at the witness table.

Mr. Finch is Senior Associate Director, General Government Division of the GAO.

We will ask you to identify the two gentlemen with you and then to make your statement.

I might say to the audience that the General Accounting Office has visited all 10 Internal Revenue Service centers at this subcommittee's request, and has made a study to identify the problems that were faced by the taxpayers in 1985.

Many problems have been identified in the committee hearings. We have asked the GAO to look at all the 10 centers this morning and we will receive that report.

Mr. Finch, we will be pleased for you to begin.

STATEMENT OF JOHNNY C. FINCH, SENIOR ASSOCIATE DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DAVE ATTIANESE, GROUP DIRECTOR, AND RALPH BLOCK, ASSIGNMENT MANAGER, SAN FRANCISCO OFFICE

[The prepared statement begins at p. 81.]

Mr. Finch. Thank you, Mr. Chairman. Good morning.

I would like to introduce my compatriots here at the table. To my immediate right is Dave Attianese. Dave is a group director with the U.S. General Accounting Office who is responsible for much of the work we do in the entire tax area.

Ralph Block is to his right. He is from our San Francisco office. He is assignment manager responsible for the work we are reporting here today, that being the work at the 10 service centers. We are pleased to be here this morning to assist the subcommittee.

Chairman Pickle. Mr. Finch, do you have a written statement, please continue.

Mr. Finch. Our testimony today is based on information that we gathered during our examination, at this subcommittee's request, into the problems experienced by IRS' 10 service centers during 1985.

As has been chronicled by different sources during the year, IRS encountered numerous problems in 1985 that caused serious disruptions to service center operations and that severely strained taxpayer relations. There were many reasons for those disruptions, most of which can be related in one way or another to the introduction of a new service center computer system and related input systems.

IRS has taken, is taking, and plans to take several steps to correct the problems encountered during 1985 and to provide for a less disruptive processing season in 1986. Considering that IRS has had a year's experience with its new systems, we believe those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985.

There are potential problems, however, that cause us to hesitate about predicting a "normal" processing system and that cause us concern about the tax administration system in general.

There are also a couple of issues, relating to future computer procurements and effective communication within IRS, that could affect years beyond 1986 and that we think warrant discussion at these hearings. Another unknown is the impact that the Gramm-Rudman Act will have on IRS' funding.

I would now like to summarize the above matters and submit my detailed statement for the record.

What happened this year? During 1985, IRS' 10 service centers had difficulty processing tax returns timely. As a result, more refunds were delayed in 1985 than in the past and interest payments on late refunds increased substantially; many taxpayers had to file duplicate returns; erroneous taxpayer notices were issued; correspondence and other inventories swelled; the number of telephone calls from taxpayers grew; overtime costs increased; and the productivity of service center personnel declined significantly.

As discussed at length in my detailed statement, the difficulties IRS and the taxpaying public experienced in 1985 were attributable to several problems ranging from insufficient computer capacity to ineffective processing controls to inadequate training.

I would now like to summarize a few of those problems.

IRS had planned, by January 1, 1985, to have upgraded each service center's computer capacity. However, because the contractor was late delivering some central processing units and because some tape drives needed to effectively operate the computer programs were not received until May, 7 of the 10 service centers did not have the capacity needed to handle their 1985 filing season workload.

Computer programs took longer to run than they should have, attributable, at least in part, to the fact that the programs had been rewritten by IRS programmers who were relatively inexperienced in the new program language.

IRS programs either did not contain good checkpoint routines or contained no checkpoint routines at all. As a result, programs that failed had to be rerun from the beginning instead of from checkpoints.

Because of other document control problems, the centers could not keep the service center control file accurate and current. That file is the service center's primary control over documents and revenues.

The service centers also experienced difficulties resolving a large number of instances where blocks of documents that were transcribed into the computer did not balance with information on the service center control file. One reason was that, unlike prior years, the information transcribed from the block header card, such as the document locator number, was not key verified—that is, the information was not transcribed a second time by another data transcriber to insure its accuracy.

All service centers experienced large increases in the number of service center transactions that did not post to the master files. This problem was attributable, in part, to the fact that transcribed tax return entity data was not key verified.

Service centers' correspondence inventories reached unusually high levels during 1985. A major reason was the unavailability of the integrated data retrieval system. When that system is not available, tax examiners cannot do the research needed to work and close correspondence cases.

Service centers had problems attracting new employees and retaining experienced employees. Center officials attributed this to such things as the lack of part-time work and flexible work hours at the centers, job stress due to performance standards, and entry-level salaries that were often lower than those offered by local fast food restaurants.

Service centers also encountered various types of employee training problems, including late receipt of training materials and late presentation of training.

That highlights some of the problems. Now let me summarize some of the corrective actions IRS has taken or plans to take.

Each service center has been given additional computer capacity. Additional central processing units and peripheral equipment have been delivered and other peripheral equipment is scheduled to be delivered in March 1986.

Since the beginning of the 1985 filing season, IRS has been rewriting computer programs to make them more efficient in terms of both processing time and computer capacity used.

IRS is developing an acquisition strategy which proposes a competitive replacement of the service center computer system by 1989, and, in the longer term, is planning to completely redesign and replace the returns processing system with a state-of-the-art system due to be implemented during the early 1990's.

At the national office's direction in June, the service centers established task forces to resolve aged items on their control files. As of October, the number of aged items had been reduced from about 21 million to about 600,000.

In August 1985, IRS required key verification of transcribed block header and tax return entity data.

To reduce its correspondence inventories, IRS, among other things, reduced the number of tax return adjustments that result in taxpayer correspondence by raising various tolerances.

IRS is considering various strategies to overcome staff recruitment and retention problems. We do not know to what extent those strategies have been or will be implemented.

New training materials and a new training curriculum have been developed. As of December 1985, service center officials told us that delivery of training materials, training of instructors, and employee training were on schedule.

What will happen in 1986? Because of the corrective actions it has taken or is planning to take, IRS does not anticipate major processing problems in 1986. Considering that IRS has had 1 year's experience with its new systems, we believe that those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985.

We do, however, have some concerns about certain factors that could cause problems during the 1986 processing season; certain matters that we believe could adversely affect the tax administration system; and issues that go beyond next year.

Despite the prospects for a smoother 1986 processing season, five unknowns cause us some concerns. These relate to, one, whether the service centers will be able to reduce their inventories to manageable levels before January 1, 1986; two, whether IRS strategies to alleviate staffing problems will be effective; three, whether sufficient controls have been implemented to insure that computer tapes containing tax return and payment data are processed timely; four, whether peripheral computer equipment will be delivered in a timely manner; and, five, whether the service centers' front-end processors will be able to process IRS' realtime workload.

Inventories: A major concern with respect to 1986 is whether the service centers will be able to reduce their correspondence and unpostable inventories to manageable levels by the end of this year. As of October 24, 1985, Cincinnati was the only service center that had reduced both those inventories to levels approximating what IRS considers manageable.

IRS considers a correspondence inventory manageable when no cases are uncontrolled beyond 14 days after IRS received the correspondence and no more than 20 percent of the controlled cases are 45 days old or older. The correspondence inventories at each of the service centers, except Cincinnati, exceeded the 20-percent criterion as of the end of October.

At Atlanta, Brookhaven, Memphis, and Philadelphia, the number of controlled correspondence cases older than 45 days was in excess of 80 percent.

IRS considers an unpostable inventory manageable if no more than 20 percent of the cases has been in the inventory anywhere from 3 to 10 weeks, depending on the unpostable condition involved. As of the end of October 1985, only Cincinnati, Ogden, and Andover had unpostable inventories that approximately met that criteria.

If the service centers cannot get their correspondence and unpostable inventories down to a manageable level by the beginning of 1986, taxpayers could again experience delays in getting their inquiries answered and their transactions posted to the master file.

Staffing: The staffing conditions that service center officials cited, such as low pay and undesirable working conditions, existed before 1985 and will continue, to some degree, in 1986. IRS has developed certain strategies that it hopes will help alleviate those problems, but there is no way of knowing, yet, how successful those strategies will be.

IRS' decision to redistribute service center workload effective January 1, 1986, creates further uncertainties. IRS data indicates that the Cincinnati and Andover service centers would seem the most affected by this redistribution.

The data indicates that the returns processing functions in both those centers will experience a workload increase in excess of 20 percent as a result of this redistribution. Such an increase could cause problems if the service centers are unable to obtain and train the necessary staff to handle that work.

CONTROLS OVER COMPUTER TAPES

One of the difficulties IRS experienced this year involved the untimely processing of computer tapes containing tax return and payment data. Unless appropriate management controls have been implemented, IRS cannot be assured that this problem will not occur again in 1986.

IRS' internal audit has been conducting a nationally coordinated review of management controls in the service centers' computer branches and, we understand, will be issuing a report shortly. Because of internal audit's involvement and our own time constraints, we did not assess computer branch controls.

PERIPHERAL EQUIPMENT

IRS has upgraded the computer capacity at all 10 service centers by adding a total of 20 central processing units to the 1985 complement of 48 central processing units. However, delivery of the peripheral equipment—the disk controllers and disk drives needed to fully use the computers' capacity—will not be completed at the beginning of the filing season.

For example, 14 controllers and 76 disk drives are scheduled to be delivered in March 1986. In December, IRS' officials told us that the equipment scheduled for delivery in March is not needed for returns processing in 1986 and its delivery may be delayed.

As discussed before, the four largest service centers were unable to use all of their central processing units early in 1985 due to a late delivery of peripheral equipment—one of the factors that affected their performance.

Also, any equipment installation during the filing season could have a disruptive effect on service center processing. Typically, new hardware is installed at computer centers during times that are least disruptive to production processing—nights or weekends. During the tax filing season, there is no least disruptive time.

Accordingly, IRS should reconfirm, as soon as possible, its decision about the need for the equipment to be delivered in March so that it can take steps to either ensure that the equipment is delivered on time or defer delivery until after the filing season.

Front-end processors: We are concerned whether the front-end processors to the main computers at each service center will have enough capacity and reliability. Front-end processors are the computers through which all online inquiries via computer terminals must pass to get access to key IRS data bases on IRS' main computers.

The data bases are used by various service center functions such as those responsible for responding to taxpayer inquiries, processing refunds and adjustments to taxpayer accounts, examining taxpayer returns, collecting taxes, and investigating tax crimes.

Each service center has one front-end processor. If that unit fails, access to the main computers is not possible until the unit is repaired.

An additional concern involves the potential for an increase in the workload to be processed by the frontends. Considering the current backlog of correspondence and IRS' stated intent to emphasize taxpayer service for the coming year, the capacity of the front-end processors may become a problem.

IRS has awarded a contract to replace the front-end processors but the contract is being protested. The earliest planned installation of a new front-end processor at a service center is August 1986, after the filing season.

Let me now address some concerns about the tax administration system at large.

Among the many steps IRS took in trying to deal with the problems encountered in 1985 were two that we recommend IRS reconsider—one because we believe it goes too far, the other because we believe it does not go far enough. Our concerns here relate more to the potential impact on the tax system than to the potential impact on the 1986 processing season.

One of the steps IRS took in an attempt to reduce its correspondence inventories to manageable levels was to increase several of its tolerances so as to reduce the number of taxpayer accounts needing adjustment and thus the volume of taxpayer correspondence.

IRS estimated, for example, that raising the tolerance for assessing the Federal tax deposit penalty would reduce correspondence inventories by 1.7 million cases and would save 74 staff-years.

Considering IRS' estimate that increasing the tolerance would also generate an annual revenue loss of $185 million, we are concerned that the disadvantages associated with the increased tolerances may outweigh the advantages.

Our concern about tolerances is also fueled by a concern for taxpayer equity and those taxpayers who dutifully comply with the tax laws.

In 1986, IRS will require that entity data from tax returns be key verified only for those data transcribers who do not maintain acceptable quality levels. The decision to limit key verification was apparently predicated on the availability of resources.

Given what is at stake, however, we think IRS should reconsider whether key verification is the most appropriate place to save resources.

We believe it is vital, from a taxpayer relations standpoint, that IRS process tax returns accurately and timely.

IRS' problems during the past processing season resulted, in part, from erroneously transcribed tax-return-entity data, which caused returns not to post to the master file and thus delayed refunds and generated taxpayer inquiries. We think IRS is taking an unnecessary risk by limiting key verification of that data.

In our opinion, a better approach would be to begin the season with 100-percent key verification of entity data and reduce that level if performance shows that original entry accuracy is within an acceptable range over a period of time.

Now some concerns about longer term issues.

This year's difficulties were due, in large part, to problems related to the service center replacement system, known as SCRS. We have been reviewing the acquisition and implementation of SCRS at the subcommittee's request and will be issuing a separate report next year. Although it is too early for us to reach conclusions on most issues, one issue crucial to successful implementation of SCRS bears mentioning—the lack of a proper focal point for managing a procurement through design and implementation.

In June 1979, GAO reported on the need for IRS to better plan for and control its ADP resources (GGD-79-48). We pointed out the need for an appropriate focal point within the organization to exercise control over major systems during their design and implementation.

In our opinion, SCRS provides indications that problems were experienced, or at least exacerbated, due to the absence of a focal point.

IRS established a Systems Development Office to plan for, support, and initiate SCRS. Among other things, that Office was responsible for feasibility studies, conversion studies, and transition plans.

Once the overall plans were in place and the SCRS project was started, however, the Systems Development Office was disbanded. Each functional organization identified in the transition plans was responsible for managing its part of the project. There was no controlling organizational component to oversee the overall progress of SCRS.

As a result, critical management functions, such as ensuring that system sizing assumptions were adhered to, milestone dates were reasonable, and software was fully tested before it was implemented, were not effectively carried out.

Because IRS plans major procurements to replace SCRS by 1989 and then again in the early 1990's, it is important that IRS take the steps necessary to insure that those systems are brought on line more smoothly than was SCRS. Key in that regard is establishment of an appropriate focal point within the organization to manage the system design and implementation.

Another long-term concern relates to communication. As we did our work, it seemed to us as if some service centers were doing a better job of isolating problems and reacting to those problems than were others.

It seemed to us also that IRS, as a whole, might have been better able to deal with this year's problems if knowledge of those problems had been more timely communicated to the appropriate levels of management within and outside a particular service center and if a particular center's solutions to those problems were better communicated to the national office and to other centers.

As a result of this year's problems, it seems reasonable to believe that IRS employees will be more sensitive to conditions that could lead to problems in 1986 and will be quick to communicate those problems to the appropriate level of management.

IRS plans to establish a 24-hour-a-day, 7-day-a-week command post at the national office are indicative, we believe, of its recognition of the need for that kind of communication, although that command post has not yet been tested in operation.

The success of the command post concept as well as other IRS actions will depend on, one, whether IRS' organization facilitates effective communications between and among service centers and between service centers and the national office; two, whether IRS' management information system provides the type of information management needs to identify problems before they get out of control and whether that information is being used effectively; and, three, whether IRS' use of productivity standards fosters the kind of competition between service centers and individual managers that might discourage them from surfacing problems and seeking solutions.

This concludes my prepared statement. We would be pleased to respond to any questions.

Chairman PICKLE. Mr. Finch, we thank you and we appreciate the thoroughness in which the GAO has conducted this examination and the audit.

Overall, I think you have been very kind to the Internal Revenue Service with respect to the problems they experienced. You have noted some positive steps they have taken and given some warnings or caveats about the future.

Let me say to begin with, when you state on page 7 you have five reservations and you summarize them: One, whether the service centers will be able to reduce their inventories to manageable levels by the first of the year; two, whether the Internal Revenue strategies to alleviate staffing problems will be effective—that is a serious problem; three, whether sufficient controls have been implemented to assure that computer tapes containing tax return and payments are processed timely; four, whether peripheral computer equipment will be delivered in a timely manner; and, five, whether the service centers' front-end processor will be able to process the workload. Those are five serious reservations.

You indicated some positive things have been done, but if there is a failure in any one of those to any big degree, then we have got another bad year ahead of us.

Now, in a broad sense you, representing the GAO, do you think that the Internal Revenue Service is on top of things and that there will be no problems in 1986?

Mr. Finch. I don't think even IRS, Mr. Chairman, would tell you that there won't be any problems in 1986. I think there will always be problems. With an organization the size of IRS and with the amount of paper that IRS processes, I think some problems can be anticipated.

I do think that IRS has moved out aggressively and I think it has identified the causes for many of the problems that it experienced in 1985, and that it has designed an action plan which will alleviate many of those problems.

The concerns that we have, I think, are valid concerns and we are interested in hearing the Commissioner's response in terms of what IRS proposes to do to address those.

Chairman Pickle. We are interested in hearing those too.

Of the 10 service centers, would you rate any of them as being in control of its operations and in good shape?

Mr. Finch. Well, I wouldn't like to point fingers, Mr. Chairman, but I think of the 10 service centers, probably the Cincinnati Service Center comes closest.

Chairman Pickle. Would you verify which is the best and which is the worst?

Mr. Finch. My personal vote is Cincinnati as the best and perhaps Philadelphia for the least effective. That is during the 1985 filing season, sir.

Chairman Pickle. What specific action still needs to be done, and done immediately, in advance of the 1986 tax returns? Have you got any specific recommendations?

Mr. Finch. I think one of the first things that needs to be done, sir, is they need to try to the best of their ability to get those inventories down, because to the extent that the tax examiners and the service center employees are working on these old inventories, new inventories are going to rapidly build and it is just going to cause that much more of a problem.

Chairman Pickle. We will ask the Commissioner about that backlog.

I made a reference to that at the beginning of the hearing. A large amount of inventories—by inventories you mean unpostables and correspondence?

Mr. Finch. They had other inventory problems during the season, but I think most of them are down now to where they are in hand.

If I had to point at 2 potential problem inventories, it is those two, correspondence and unpostables.

Chairman **Pickle**. You said in your statement you do not think those inventories will be able to be reduced before the beginning of 1986 filing season. Now, if that is correct, what makes you think then that they will be able to handle the backlog during 1986 with the regular workload?

Mr. **Finch**. My point, Mr. Chairman, was we are concerned that they may not be able to get it down. The most recent information that we had when we came to the table concerning the level of those inventories was October data, the end of October. So that gives them both November and December to work on getting those inventories down.

Perhaps the Commissioner will have more current data, which will give both the committee and us better insight into that number.

Chairman **Pickle**. Do the Internal Revenue Service centers have sufficient telephone lines into the various service centers?

Mr. **Finch**. I don't think so.

Chairman **Pickle**. Telephone lines and telephone answerers.

Mr. **Finch**. No, sir, I don't think they do. I don't.

In fact, we did some surveys, as you well know, because most of them were done on behalf of this subcommittee in response to its request. We took a look at telephone service available to taxpayers back in 1978, in 1982, and again this year in 1985, and our overall sense was that over that period of time, for each of those tests, that availability was down.

For example, in 1978, taxpayers could expect to reach IRS on the first call, 78 percent of the calls.

Chairman **Pickle**. Seventy-eight percent could not get through.

Mr. **Finch**. Seventy-eight percent could get through on a first call in 1978. In 1982 that number had declined to 62 percent. In 1985's filing season that number had declined to 31 percent. I think another statistic that is kind of indictative of an insufficient number of telephone lines and perhaps even of the assisters, too, Mr. Chairman, is that during the May to September, 1985 period, IRS responded to 600,000 more telephone calls than it did during the same period in 1984. That is an impressive statistic, 600,000 more.

There is another statistic. The number of calls that went unanswered also increased from 13.6 million in 1984 to 47 million in 1985.

Chairman **Pickle**. Forty-seven million individuals could not get a response.

Mr. **Finch**. Yes, sir. So I think there is room for improvement in that regard.

Mr. **Schulze**. Would the gentleman yield. Does that figure—that 47 million—include persons who could have called 5 or 10 times in an attempt to get through to IRS?

Mr. **Attianese**. Mr. Chairman.

Chairman **Pickle**. Mr. Attianese.

Mr. **Attianese**. One of the steps IRS indicates it will take is add more telephone assisters and more telephone lines. If they do all that, they may have enough. It is hard to tell whether that will provide sufficient coverage because a lot of the problems they had this year answering all the calls was because they had so many processing problems that generated a lot of calls. If they have a smooth season next year, you would expect the number of calls they have next year will go down and hopefully the number of assisters and number of lines they have will be sufficient, but that is hard to tell until they get to the season and start getting calls.

Chairman PICKLE. Mr. Attianese, I am sure the Internal Revenue Service plans to add personnel and wants to beef up both personnel and equipment. They have not requested any additional personnel, though. They keep being silent in public about the need for personnel. You cannot have it both ways.

I know what they want but both the Internal Revenue Service and the administration has got to cooperate with the Congress if they are going to get anything done on it.

Now, I have a couple of questions but I am going to yield to Mr. Schulze first and then I would like to come back to you.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Just briefly, I share the concern you expressed in your report, over inadequate training and inadequately trained personnel. Can you be more specific in that area? What kind of new training?

Mr. FINCH. Let me try to zero in on that.

One of the problems they had in 1985 was that they had a whole bunch of new systems that came into play, both input systems as well as the main frame systems themselves. They had 1,500 computer programs that were rewritten, et cetera.

They didn't get the programs out into the service centers in time for the operators to really be trained as to how to run those programs. The same was true with some of the input systems that they use, the training materials were late getting out to the service centers and really some of the training was done on a real-time basis, quite frankly.

I think those are the kinds of issues we are talking about really. At this time, IRS is taking steps to assure training materials get out to the service centers sooner and that occurs before the actual process gets started.

Mr. SCHULZE. Are you satisfied there is a follow-up system; they are not just sending materials out and expecting it to be done.

Mr. FINCH. We made phone calls to each of the service centers to inquire about the status of the training and in each of the centers, the training was on schedule.

Mr. SCHULZE. Did you check into the management of computer rooms in the service centers, lack of standardization and discipline? Was that a factor at all in your——

Mr. FINCH. No, sir, not really. We relied on work being done by IRS internal audits. They have a nationally coordinated audit under way and it is my understanding they have a report almost ready for issuance.

Mr. SCHULZE. In fact, that is why I asked the question because that issue was raised.

Looking at the unpostable inventory, this says that IRS considers the unpostable inventory manageable. No more than 20 percent of the cases have been in the inventory anywhere from 3 to 10 weeks, depending on the unpostable condition involved.

Can you be a little more explicit on that? What are the degrees of unpostable conditions and what are the various categories?

How many different types of unpostable conditions are there? Are they easily categorized or do they include such a variety it is difficult to do that?

Mr. **Block**. There are probably around a hundred different types of unpostable categories, but primarily many of them deal with the entity data not matching the master file records. I cannot say what they are specifically, but there are around a hundred unpostable conditions for both businesses and individuals.

Mr. **Finch**. Mr. Schulze, I believe Ralph put his finger or a key point and that was that the transcription of the entity data last year during the filing season data resulted in a lot of unpostables because the data was not key verified when it was transcribed.

In fact, I recall one statistic I believe it was Kansas City. The Kansas City Service Center estimated that about 39 percent of their total unpostables was attributable to erroneously transcribed taxpayer entity data.

Mr. **Schulze**. That is more a personnel problem than it is a problem with the capacity or the design of the equipment. Is there a way through key design that this can be corrected?

Mr. **Finch**. There are a couple of ways to get at the problem with erroneous input data. One is to increase key verification, which is what we are recommending. The other is to hire operators, sir—I don't mean to be facetious—to hire operators that don't make errors. If you can get higher quality staff, you can reduce errors.

Mr. **Schulze**. How does the error rate at IRS compare with that in general business in the private sector or did you take a look at that?

Mr. **Finch**. We didn't make that comparison, sir.

Mr. **Schulze**. Is that information readily available?

Mr. **Finch**. We can pursue that and if it is we will provide it for the record.

[The following was subsequently received:]

U.S. General Accounting Office,
Washington, DC, January 13, 1986.

Hon. J.J. Pickle,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives.

Dear Mr. Chairman: During your Subcommittee's December 16, 1985, hearings on IRS' service centers, we agreed to submit for the record any information we could readily obtain regarding data entry error rates in the private sector. We could not readily locate any printed information on such error rates. We did, however, telephone six private firms known to our staff as providers of data transcription services and asked them for error rate information.

The firms we contacted do not represent a statistically valid sample, and we did not verify the error rate information they provided. You may, however, find that information useful.

Three of the six firms told us that they had no information on error rates, although one of the firms told us that it guaranteed 95 percent accuracy. The other three firms cited specific error rate information. The first cited an error rate of less than 1 percent before key verification, the second cited an error rate of one-tenth of 1 percent (although we are not certain whether that was before or after key verification), and the third cited error rates ranging from .5 percent to 2 percent after online edits and/or key verification.

For comparative purposes, we attempted to obtain data entry error rate information for IRS. The only such information we could readily find was the following excerpt from a November 1, 1985, Internal Audit report on the results of its review of processing activities at IRS' 10 service centers during 1985:

"We found that managers did not require KV [key verification] when OE [original entry] operator error rates were less than five percent. Audit trails were not available to verify the quality standards achieved. To the contrary, Quality Assurance Branch reported an overall data conversion error rates as high as 28% for various types of returns in May 1985."

If you have additional questions or need further assistance, please let me know.

Sincerely yours,

JOHNNY C. FINCH,
Senior Associate Director.

Mr. SCHULZE. Sometimes if they are running somewhat parallel to general business standards we have less cause for complaint or maybe we are asking too much. If on the other hand they are running higher, then we should look into it.

The four largest service centers were unable to use their central processing unit because they received them late. Which are those four?

Mr. FINCH. I believe that was Fresno, Ogden, Atlanta, and Austin.

Mr. SCHULZE. Did the four receive this equipment late?

Mr. FINCH. They received peripheral equipment late.

Mr. SCHULZE. This was not necessarily key to the major——

Mr. BLOCK. Except for Atlanta. Atlanta received a faulty central processing unit that was not replaced and thus wasn't available for use until March of 1985.

Mr. FINCH. The point on the peripheral equipment, sir, was that because they didn't have the peripheral equipment they couldn't utilize the full capacity of the main frames that they had.

Chairman PICKLE. Let me interrupt on that. They didn't have any peripheral equipment. They are supposed to have it on order, but your testimony indicates that the IRS said they did not need it. Is that a serious possible defect?

Mr. FINCH. We think it could be. Certainly looking at the history of what happened in 1985, the fact that they did not have peripheral equipment when they needed it, was a part of the service center's problems.

Chairman PICKLE. And they didn't have sufficient tape drives.

Mr. FINCH. Exactly so. IRS, since the beginning of the past filing season, has added more central processing units plus they have added more tape drives, more disk drives, more disk controllers, more peripheral equipment. There is a balance of 14 disk controllers and 76 disk drives that are scheduled to be delivered in March, and IRS' people told us as late as last week that they didn't think they would need that peripheral equipment to process tax returns during the coming filing season and our suggestion is that given the history, that decision should be looked at fairly closely and reconfirmed.

As the filing season progresses, they need to be looking at their production statistics to see if they need to expedite delivery of that equipment.

Mr. SCHULZE. Mr. Finch, in your opinion, will there be long-term repercussions as a result of what has happened in 1985?

Mr. FINCH. Yes, sir, I think there will be. I think IRS lost some ground in terms of its credibility and in terms of public respect and that concerns me some. As each of you gentlemen know, the voluntary compliance system is not in the best of health right now. We do have a compliance problem.

Chairman PICKLE. What is the voluntary compliance percentage now?

Mr. FINCH. There was a study done at the end of 1984 by Yankelovich, Skelly and White for IRS and that study showed that 20 percent of the taxpayers polled admitted cheating and that roughly 33 percent endorsed cheating.

The IRS' own study that was done in 1983 of 1981 tax return data shows a similar kind of trend, that being an overall noncompliance rate of about 20 percent; in other words, voluntary compliance in 1981 was hitting around 80, 81 percent as opposed to 100 percent.

So we have a downward trend. You can trace the figures back through studies, voluntary compliance has been going down.

At the same time, IRS' work load has been increasing dramatically. A comparison I saw the other day, from 1976 to 1984, the number of returns filed had increased by 46 percent.

IRS' resources have increased far, far less than that, one to two percent maybe in total.

I think that one of the parts of the foundation that the voluntary compliance system rests on is the credibility and public respect for IRS and I think they really have some ground to make up as a result of this last season in terms of doing that.

They need to demonstrate to the public that they are able to process returns, issue refunds and answer taxpayer questions quickly and efficiently. They need to improve taxpayer relations through all contacts, through examination contact, correspondence, all of those.

I think they need to enhance their compliance presence. In that regard, the examination coverage in 1976 was 2.6 percent, in 1980 it was down to 2 percent. It is currently down around 1.2 percent.

IRS has taken other initiatives in terms of doing information matching, document matching, those kinds of things, but I don't think that those things are going to replace some face-to-face examinations, particularly in terms of detecting compliance problems that relate to cash transactions.

Mr. SCHULZE. So in your opinion there is a lot IRS can do to see that 1985 doesn't repeat itself, but the damage has already been done and it will have an impact probably for the foreseeable future?

Mr. FINCH. That leads to a point that this subcommittee has pursued on numerous occasions. In fact, we were here earlier this year testifying on the adequacy of the IRS resources. I think Mr. Pickle made the point in his opening statement that there seems to be a reluctance on the part of the administration to ask for the resources that it needs.

Another concern that I have in that regard is the impact that Gramm-Rudman may have on IRS' ability to do what it needs to do.

Mr. SCHULZE. Thank you, Mr. Chairman.

Chairman Pickle. I have some other questions. I am going to submit additional questions to the GAO because I am just now seeing your testimony for the first time. I think it brings to mind certain questions that we must ask.

Let me ask you 1 or 2 more questions. One, about front-end processors. Front-end processors are computers used to handle taxpayer account problems. This system is over 15 years old. It has been cited as a major reason for the correspondence backlog in 1985. Are these systems currently up to capacity now?

Mr. Finch. The capacity of the current front-end processors, I believe, is somewhere in the neighborhood of 17.8 transactions per second. We did a test last year covering the period from June 1 to June 27 at the Austin Service Center and the production rates during that time were above 15 transactions per second, 15.3 I believe it was, so they were getting within the range of full capacity at that time.

The second point is since our work covered like a 28-day period, there were highs and lows in there, so it seems fairly certain that at some point in time during that period those processors were reaching if not exceeding capacity.

To the extent that capacity is reached or exceeded, overall response time is slowed down, fewer inquiries can be worked and inventories begin to build up.

Chairman Pickle. What steps can the Internal Revenue Service take to improve the capacity of its front-end processors?

Mr. Finch. They have recognized the problem and have awarded a contract to try to increase that capacity. I think the contractor would have provided a capacity somewhere in the low twenties in terms of transactions per second.

They also plan in 1988 to increase that capacity to 28 transactions per second and in 1990 to go to 60 transactions per second.

The problem is that the contract awarded trying to increase the capacity for the coming filing season has been protested.

Chairman Pickle. The General Accounting Office reports that it is not confident that tapes containing taxpayer information are being handled correctly.

Last February the subcommittee held a hearing on missing tapes in Philadelphia. We are now informed that in March 1985, the GAO found 58 tapes from bank and brokerage firms containing dividend and interest information that were not processed timely. While 25 of the tapes were ultimately used, 33 tapes were erased and the GAO estimated that failure of the IRS to match the information on the 33 tapes to individual taxpayer returns resulted in a revenue loss of $1.4 million. Is that essentially correct?

Mr. Finch. That is essentially correct, sir; yes.

Chairman Pickle. What can the Internal Revenue Service do to prevent that type of thing?

Mr. Finch. The causes of that problem are the same kinds of causes that resulted in IRS' failure to process the Federal tax deposit tape in Philadelphia. There were other instances last year, for instance, Kansas City did not process a tape involving around 5,600 taxpayers and payments of about $3 million and that caused erroneous collection actions which included, I think, 114 levies.

Those instances relate to controls over the receipt and delivery of computer tapes. The 33 tapes that you referred to that were erased really got lost in the system due to a lack of control, if you will, on the part of the Atlanta and Cincinnati Service Centers and NCC. So it was that same kind of symptomatic problem. It is that problem that I understand the IRS internal audit has taken a close look at and is about ready to address.

Chairman PICKLE. Mr. Finch, we are going to hear now from the Internal Revenue Service, but I want to make this observation: When you cited the declining rate of voluntary compliance, that is down now to 80 percent and going down, I think that represents one of the most alarming observations that a democracy such as ours must face. If that trend continues, we are in big trouble.

Now, whether it is lack of equipment or trained personnel or whether it is fraud abuse or underground economy, but all together it represents a serious problem for this Republic. Somehow we have to do better both with the tax system and in the processing and handling of the returns.

I am confident the average American citizen is willing to pay his just portion of taxes, but as long as there is this concern over fairness and the possibility of successful cheating, that rate may continue to go down.

I think the individual American taxpayer ought to know that at some point the IRS and the tax system is going to be improved that no where in this land can an individual escape his fair share of taxes. That time is coming and, hopefully, we can make the system much more efficient. Right now a great deal needs to be done.

I think the report is good. I think you have treated the IRS too lightly, but I know the Internal Revenue Service is doing their best to correct this situation.

We will be submitting other questions and we would like to have your response by the end of this month.

[The questions and answers begin at p. 163.]

Mr. SCHULZE. May I ask another question?

One of the things that concerned me when we started looking into the Philadelphia situation was the delay in that information arriving at the Washington office to someone who could then take action. Have those lines of communications been opened up and are they more clearly defined? Do the employees now know where to go when they have a problem and how to solve it?

Mr. FINCH. Yes, sir. I think there have been improvements in that regard. One of the things done to facilitate communication within the service centers and between the service centers and the national office is to establish a command post concept. There will be a command post manned in the national office 24 hours a day to take calls from service centers to help them solve problems and to communicate. If one service center has invented the wheel, perhaps that word can be disseminated so the other nine don't have to go through the same drill.

Mr. SCHULZE. You are satisfied that if the Philadelphia tape problem occurred today it would not reach the proportions which it did last year?

Mr. **Finch**. I would certainly hope not, sir. I look forward with a great deal of interest to see the internal audit's report in that regard.

Chairman **Pickle**. Thank you, gentlemen.

The Chair is going to ask Senator Arlen Specter if he will come forward and proceed at the witness table. We would be pleased to hear your statement. We are sorry that you were late, but we understand it was a train and not a computer or an airplane.

I have told Mr. Gekas, who presented his statement, that we have a great deal of questions and we are trying to limit the witnesses' time to a summary of 3 minutes. We ask that you stay within that time.

The Chair is going to excuse himself temporarily. I must appear at a reconciliation subcommittee meeting upstairs. I will be back in a few minutes.

Senator, we will be pleased to hear your statement.

STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator **Specter**. Thank you, Mr. Chairman.

Beginning with what the chairman has characterized as an alarming problem, I think that phrase well articulates the issue in terms of the ability of the Internal Revenue Service to move forward on voluntary compliance in this country.

If we had the 19 or 20 percent who are not now paying their taxes, it would yield somewhere in the neighborhood of $200 billion and would, in and of itself, eliminate the deficit.

Prior to coming to the U.S. Senate, I had experience as the district attorney of Philadelphia. It is apparent to me that the failure of the Internal Revenue Service to know who has filed and who has not filed tax returns is an open invitation for nonfiling. This kind of a hearing and this kind of publicity does not inform those who are inclined not to file, because they have already known the facts and are already acting.

Therefore, that if the problems are not corrected promptly, it seems to me that the characterizations which have been made here about the lost ground, credibility and lack of public respect to which GAO has testified will be magnified many times over.

I certainly do commend the Subcommittee on Oversight. Last month on November 19 a similar oversight hearing was held before the Judiciary Subcommittee on Administrative Practices and Procedures, which I attended.

The concern that I wish to express to this subcommittee today is the difficulty of oversight when the Internal Revenue Service does not cooperate.

There were a series of very important questions propounded at the hearing on November 19 which have, as yet, not been answered. In propounding these questions, we were not interested in 1975's history. What we were interested in was 1986's efficiency. It seems, at least to this Senator, that the Internal Revenue Service has not been candid, and has not been forthcoming, in really identifying problems in a way which would enable the Congress to assist the Internal Revenue Service in correcting those problems.

When Commissioner Egger appeared before this subcommittee on March 11 of 1985, when there had been adequate warnings about the kinds of problems which IRS might have anticipated, the Commissioner responded by saying:

> As with any undertaking of this size, a large number of transitional problems appeared. There is simply no way to avoid a shake down period for working out the bugs in the equipment, the software and the procedures for operations of any new system.

During the course of the hearings before the Judiciary Subcommittee it was apparent that the Commissioner and IRS had adequate notice about the problems which were then at hand.

In 1984 they had been forewarned. They really knew that the problem was of much greater magnitude than that which was suggested at the March 11 oversight hearing.

The chairman has raised the issue about requests for more personnel. I think the chairman has put his finger on the issue as to what has to be done.

Gramm-Rudman will not prevent the Congress from establishing priorities in adequately funding the IRS to do its job.

It seems to me that the Congress would be penny-wise and pound-foolish in not providing the resources when we are dealing with something in the neighborhood of $200 billion, which is, in fact, not being collected.

When Commissioner Egger testified before the Judiciary Subcommittee, there was a suggestion made that there was inadequate funding. But records will show that from 1981 through the present time the Internal Revenue Service has received all, or just about all, of what it has requested.

[The following was subsequently received:]

SUMMARY OF CONGRESSIONAL ACTION ON IRS BUDGET REQUESTS, FY 1981–85

SENATE APPROPRIATIONS COMMITTEE AND HOUSE APPROPRIATIONS COMMITTEE RECOMMENDATIONS ON IRS BUDGET REQUESTS, FY 1981–85

[Dollars in thousands]

Fiscal year	IRS budget request	House Appropriations Committee recommendation	Senate Appropriations Committee recommendation
1981 [1]	$2,359,111	−$1,611	+$56,232
1982 [2]	2,565,649	+38,000	+18,500
1983 [3]	2,917,159	+31,031	−19,159
1984 [4]	3,291,551	−30,002	−26,751
1985 [5]	3,516,859	−18,500	−32,402

[1] 1981—House cut derives from rounding IRS Budget Request downward. Senate added resources to ensure an audit coverage of 2.24%.

[2] 1982—House added resources mainly to Appropriation III (Examination & Appeals), to maintain audit coverage, and Appropriation IV (Investigation & Collection), to collect additional delinquent accounts. Senate addition was primarily to Appropriation IV to improve compliance.

[3] 1983—House added resources to maintain Taxpayer Service at FY 1982 level. Senate recommended adding $50 million to maintain Taxpayer Service but also cut IRS Budget Request by $69 million. Major areas affected were: Salaries and Expneses—$11 million, ADP—$18 million, & Examination & Appeals—$17 million.

[4] 1984—House cut $25 million from ADP systems modernization. Senate did not cut ADP but cut SLUC (Standard Level User Charge—rent on federally owned buildings) by $17 million.

[5] 1985—House added resources solely to Appropriation IV (Investigation, Collection and Taxpayer Service), to increase compliance. Senate cuts unspecified save that they not be applied against ADP modernization, Tax Counseling for the Elderly program, or new tax collection initiatives.

Senator **Specter**. There is a great deal to be said, but I know that this subcommittee has other witnesses to hear and many points of inquiry. So, I will conclude at this point with the final observation that at this juncture it may realistically be beyond the power of the Congress to correct these problems through oversight.

Because of that, Senator Heinz and I have written to the Secretary of the Treasury, James Baker, asking that a close look be taken by the Secretary himself as to what is happening in Internal Revenue Service.

[The letter follows:]

U.S. SENATE,
Washington, DC, December 16, 1985.

Hon. JAMES J. BAKER III,
Secretary, U.S. Department of the Treasury,
Washington, DC.

DEAR SECRETARY BAKER: We are most concerned about the prospects for the upcoming 1986 tax return filing season.

Our concern stems from the factual scenario which has emerged from the 1985 filing season. That scenario, which we have developed this past year through a series of hearings and taxpayer forums both in Washington, D.C. and throughout our home state of Pennsylvania, shows that the tremendous backlog of documents and the attendant difficulties experienced by the Internal Revenue Service in 1985 may indeed occur again in 1986. Yet the IRS and Commissioner Egger have not made adequate provisions either to guard against, or to deal effectively with, such problems.

For example, during the most recent hearing held in Washington, D.C. on November 26, Commissioner Egger admitted that even if present plans to improve telephone service at the IRS Philadelphia Service Center are fully enacted, that office still would be incapable of responding to even one-half the number of calls which it received during last season's series of crises. At the same time, the Commissioner could not guarantee that similar foul-ups, which led to the inundation of the Philadelphia office by up to 50,000 calls daily, would not reoccur.

As Pennsylvania Senators, we have a particularly, good reason to be so disturbed by the IRS' problems and by the IRS' reluctance to confront those problems in a candid manner. The GAO Report which we released on November 26 indicates that the Philadelphia Center, while receiving only 8 percent of returns nationwide, is disproportionately represented in virtually every problem category. The Philadelphia Center paid more than one-third of all interest penalties paid by the federal government in 1985, received over 50 percent of duplicate returns filed this year, and amassed over 25 percent of the national total of documents remaining in the computer inventory files.

These findings evidence gross mismanagement and callous indifference to the rights of taxpayers—in short, a total wasteland at the present Philadelphia Internal Revenue Service office. Immediate and effective programs must be instituted to prevent such disasters in the future. To date, no such program has been revealed or even intimated. We urge you to assure prompt attention to these issues.

We have enclosed a copy of a floor statement, and testimony which we have given on this issue for further background information.

We appreciate your consideration of this matter, which will heavily impact on future revenue collection and taxpayer faith in our voluntary compliance tax system.

Sincerely,

ARLEN SPECTER.
JOHN HEINZ.

Enclosures omitted.

Senator SPECTER. Again, speaking for myself, I was very much concerned when, after holding hearings throughout Pennsylvania—and I know that my colleague Congressman Schulze has doubtless received an enormous volume of correspondence, as have Senator Heinz and myself, because Philadelphia and the office serving Pennsylvania has been characterized as the worst. In response to those tremendous numbers of complaints, hearings were held. We brought 3 representative taxpayers to the November 19 hearing so that the Commissioner could hear those people testify.

At the conclusion of the hearings before the Senate subcommittee we requested the Commissioner to stay. He said his schedule precluded it but that somebody would be there from Internal Revenue. In advance of the taxpayers testimony, I asked the Internal Revenue people to identify themselves, and no one was present.

I received a letter subsequently from the Deputy Commissioner saying that 2 members of Internal Revenue Service had been there but had been instructed not to speak.

[The following was subsequently received:]

INTERNAL REVENUE SERVICE,
Washington, DC, November 20, 1985.

Hon. ARLEN SPECTER,
U.S. Senate,
Washington, DC.

DEAR SENATOR SPECTER: It is my understanding that after Commissioner Egger left the hearing room of the November 19 hearing you inquired as to whether anyone in the audience was representing the Internal Revenue Service. For your information, two members of my staff remained at the hearing to collect information for a planned briefing for the Commissioner and me.

Several days prior to the hearing I instructed the two staff members that their responsibility would be to collect information and not to speak on behalf of the Service. Unfortunately, my staff interpreted the instructions so strictly that they did not identify themselves when you directed your inquiry to the audience.

It is unfortunate that you were not advised of the presence of the two IRS staff.

With kind regards,

Sincerely,

TOM E. PERSKY,
Assistant to the Commissioner
(Legislative Liaison).

Senator **SPECTER**. It seemed curious to me that in response to specific requests from me—I was presiding at that time over the subcommittee hearing—that no one would identify themselves to listen to the taxpayers' complaints. But it seems to me that a great deal more has to be done.

This subcommittee certainly ought to pursue the issue of oversight, and I assure you gentlemen that we shall maintain it in the Senate. But unless there is more cooperation, more responsiveness from the Commissioner—you will judge for yourselves, because you will be able to hear him in a few moments—then it is imperative that some direct action be taken by the Secretary himself.

Mr. **DORGAN** [presiding]. Thank you for your testimony.

I have one question. You talk about the need for some additional resources. I have been on the floor of the House of Representatives at least twice, probably three times this year, talking about the need for resources for the IRS. The percentage of audits has decreased radically over the years.

Tax compliance problems are increasing exponentially. But, this year alone, the U.S. Senate has voted twice to reduce the IRS budget below fiscal year 1985 levels. Yet you say we need additional resources. I agree. How do you reconcile these conflicts?

Senator **SPECTER**. I think the nature of the problem is not very well known. I put in the record a statement, including articles from the Philadelphia Inquirer covering this situation. But I don't think that my colleagues in the Senate understand the gravity of the problem. That is part of the importance of this oversight hearing.

Mr. **Dorgan**. Is there anything that you can do to help ensure that our position prevails in the conference today? I think the point you raised this morning is very important, and we need to see that the House's position prevails over the Senate's position or those resources won't be available.

Senator **Specter**. I can give you a hand with that. I will talk to my colleagues who are conferees. I will do that this morning.

Mr. **Dorgan**. Thank you.

Congressman Schulze.

Mr. **Schulze**. I thank Senator Specter for his testimony. I know he has followed this issue very closely.

One question. The letter which you and Senator Heinz sent to Secretary Baker—was there anything that you specifically asked for, or what do you see as the key to the problem?

Senator **Specter**. The key, Congressman Schulze, is management, and we have asked Secretary Baker to supply that management supervision.

Mr. **Schulze**. Are you saying to Commissioner Egger either shape up or ship out?

Senator **Specter**. No, I am not going to say that to him, Congressman Schulze, but I wouldn't mind if you did.

All I am going to do is try to identify the problems.

Mr. **Schulze**. The reason I asked that, I think Commissioner Egger has been trying very hard, and it is a tough job with the lack of personnel, well-trained personnel.

There are an awful lot of problems. I hope that we can overcome those problems, and I don't know whether just shuffling personnel—unless it is shown that they are incompetent—will solve that problem.

Senator **Specter**. I don't know that shuffling will either. We have a competent Secretary of Treasury. We have a competent administration. The situation has not come to the point yet, at least speaking for this Senator, to call for anybody's firing or anybody's resignation.

I think we are to the point of results. I don't think efforts count anymore.

Mr. **Schulze**. You are saying, "Don't give me details, just give me the bottom line"?

Senator **Specter**. I am prepared to deal with the details. I asked a whole series of questions to try to be in a position to help Commissioner Egger. But if I wait a month and don't get the responses, I find that very discouraging.

Mr. **Schulze**. Thank you.

Mr. **Dorgan**. Thank you very much for your testimony.

Next, the Chair will call on the Commissioner of the Internal Revenue Service, Rosco Egger, Jr., and Mr. Egger will be accompanied by several representatives from the IRS.

Before your testimony, Commissioner Egger, I would like to say that those of us on the subcommittee have been concerned about the prospects for a smooth filing season in 1986. Our concern as a subcommittee is partially based on the knowledge that there are 25,000 tax returns with refunds due, apparently, that still have not been processed.

We have about 1.3 million pieces of taxpayer correspondence which have not been answered. This is about a 38 percent increase over last year. We are told that the Problem Resolution Program is swathed with cases that will not be worked out until the end of the year.

Apparently, there are about 1.9 million tax payments which have not been recorded or posted from 1985, which is about 700,000 more than last year. And the GAO has expressed some serious concerns about the IRS ability to hire and train the staff necessary to do the job. Finally, the GAO indicated there is no guarantee that the computer tapes are being properly controlled.

These conditions, which are of concern to the subcommittee, if allowed to continue to exist, are not acceptable, and we trust that you are as concerned as we are. I hope that your testimony will address some of these problems.

In addition, Mr. Egger, I would like to question you on one other item which deals with taxpayer assistance.

I come from a rural part of America. I represent North Dakota, and taxpayer assistance in North Dakota is pulled to a more central location. North Dakotans are able to reach taxpayer assistance by dialing the 1-800 number which reaches in St. Paul or Minneapolis, MN.

In the past year under the administration's system, about 38 million calls were answered and 100 million calls were unanswered. We are discovering all across the country, and especially in my part of the country, that you can't get through to IRS assistance on the telephone. It seems to me this would result in problems at the end of the processing line and in enormous increases in correspondence. Taxpayers may also just say, "Well, I have had enough. I am not going to file or comply. If they don't want to answer their phones, the hell with them."

This is something I don't want to deal with at length today, but my guess is it is also part of the larger paperwork problem that you have.

With that having been said, Mr. Commissioner, we would ask you to introduce your assistants, and then we would be pleased to hear your statement.

STATEMENT OF HON. ROSCOE L. EGGER, JR., COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY JAMES I. OWENS, DEPUTY COMMISSIONER, AND EDDIE HEIRONIMUS, ASSOCIATE COMMISSIONER FOR DATA PROCESSING

Mr. Egger. I would like to mention that with me at the table on my right is James I. Owens, the Deputy Commissioner, and Ed Heironimus, who is the Associate Commissioner for Data Processing.

We have other members of the senior staff here, so that we will make every attempt to answer as comprehensively as we can any questions that you or other members of the committee have.

Before I begin, I would like to, No. 1, thank you personally, Mr. Dorgan, for your recognition and understanding of the kind of budget problems that we are facing right now today, and appreciate your willingness to comment on those.

I want to thank Chairman Pickle for all of his support, both now and in the past, again in recognition of the resource problems we have, and then I would like to thank Congressman Schulze on the recognition of the need to move ahead on as positive a basis as we can, not trying to duck out on or hide away from the problems of the past, but not spending all of our time dwelling on the problems of the past, because it is much too important that we go forward in a positive, constructive way.

Chairman PICKLE. Commissioner Egger, you have thanked each member of the committee. We thank you for your presence and your cooperation. This being Christmas time, we ought to thank each other in full measure. We would be pleased to hear your statement.

Mr. EGGER. Thank you, Mr. Chairman.

I appreciate the opportunity to be here with this subcommittee to talk about some of the problems of the past perhaps, but more importantly the efforts that we are trying to make in the Revenue Service for the 1986 filing season.

Mr. Chairman, this is the fourth time this year that I have testified before this subcommittee on matters relating to the 1985 filing season. As we know, the Service experienced serious problems during the first months of the 1985 season. We have addressed these problems and substantial progress has been made. The Service has continued to confront the consequences of the problems and will continue to do that.

In my prior testimony I have described the sources of the problems we have faced as a combination of software, hardware, operations, training, forms design and a variety of other factors, not the least of which is resources. The various functions of the IRS were affected differently and the severity of the problems was different for each of the 10 service centers.

In short, no one can point to any single cause of the problems that we faced and there is no single simple solution.

It is important to understand the context in which these problems occurred. The tax system is becoming increasingly complex. The tax processing system itself was becoming more automated, complicated, and interrelated. And, at the same time the IRS was subject to increasingly greater pressure on resources.

Over the past several months, a number of special teams from the National Office and the field have worked diligently to identify and resolve the difficulties that the Service faced. In addition, our 1986 filing season plans have been subject to review by a number of public and private auditors, such as Electronic Data Systems Corporation (EDS), GAO, and our own Internal Audit Division. A special field executive review group has been formed to evaluate all of these reports and act on the recommendations. The review group is made up of field officials who are the ultimate users of the data processing system. On December 11, I received a 95 page list of the actions taken or to be taken, which this group will be following closely through the process.

In making public statements on the outlook for the 1986 filing season, I have frequently been asked whether I can guarantee that the 1986 filing season will be problem free. Unfortunately, any such statement would be unrealistic. The tax processing system is enormously large and complex, and in any system like this there will be problems and errors. However, I am confident that we are in a far better position to start the filing season than we were at the same time last year. I anticipate that next year's filing season will proceed far more smoothly than last year's, and that the unprecedented delays in processing and issuance of refunds will not reoccur. Perhaps more importantly, we are well on the way to building a sound and workable system of tax administration for the future.

At one of the hearings I noted earlier, we provided selected statistics to help illustrate how our processing operations were functioning at that time. I would like to take this opportunity to briefly review some key statistics from recent weeks to show where we stand with 16 days left in this year.

As of November 30, we had processed over 100 million individual returns, an increase of almost 4.5 million returns from 1984. We issued over 72 million refunds as of November 29, an increase of almost 1 million from last year. Over 2 million of these refunds included interest, up from nearly 1.5 million in 1984, and the amount of interest totaled over $48 million, an increase of about $20 million from last year.

In retrospect, the 1985 filing season was really 2 seasons. In the early part of the year, the number of returns processed, refunds issued, et cetera, remained behind 1984 levels. However, backlogs were dramatically reduced after that time. In fact, during the 7 weeks from March 25 to May 10, 1985, a record 45 million returns were processed through our system.

Briefly, the following are the principal problem areas that we have addressed for the 1986 filing season.

SYSTEMIC PROBLEMS

A prime focus of our efforts has been to resolve the systemic problems that backed up the pipeline processing of tax returns. The systemic hardware, software, and operational problems of last year's filing season have been identified and changes of equipment and procedure have been made. For 1986, the hardware is more reliable, the programs have been through more intense "debugging" procedures, and our employees are more familiar with and proficient in the operation of the new system.

INCREASED COMPUTER CAPACITY

In order to assure adequate computer capacity, we have accelerated the planned acquisition of computer hardware. The number of central processing units for the mainframe systems in service centers has been increased by an overall 40 percent. Additional peripheral equipment has also been added. Installation and testing of the equipment and training of operators will be completed prior to the 1986 filing season.

INCREASED PROGRAM EFFICIENCY

One of the most significant start-up problems was the difficulty that the service centers experienced in being able to run the computer programs within the allotted time periods. Over the past months, our programmers have been able to optimize the new programs so as to drastically reduce the amount of time they consume. Since April last year, the run time for the critical weekend processing has been reduced by 68 percent.

NEW CONTROL PROCEDURES

During the filing season, we became aware that our workflow control procedures were not adequate to the task. To address this control problem, task forces were established in June 1985 in each service center to update the files, so that each center could begin the 1986 filing season with enhanced control programs and operations in place. In addition to the overall service center control file, additional specific control procedures have been added to certain functions.

MORE COMPREHENSIVE SAT

One obvious example of our renewed commitment to quality involves the use of more thorough systems acceptability tests, or SAT's, than ever before. The SAT Program takes place in a number of service centers and at the National Computer Center (NCC), in Martinsburg, WV. The SAT involves testing and trial runs of next year's programs. This year's SAT Program is the most thorough and comprehensive in the history of the Service.

IMPROVEMENTS TO THE FEDERAL TAX DEPOSIT (FTD) SYSTEM

The Federal tax deposit system involves 5 million taxpayers making over 60 million payments, totaling over $600 billion at 14,000 authorized financial institutions. While FTD processing is not directly related to the pipeline processing of individual income tax returns, the FTD system has caused a large number of problems for businesses. A project was begun in May 1985 to examine all aspects of the Federal tax deposit system with the objective of implementing systemic and procedural modifications necessary to improve the current operation. As part of this project, we determined that the vast majority of the problems in FTD processing were attributable to taxpayer errors. For the most part these errors involved taxpayers failing to fill in critical information on the FTD coupon or filling in the coupon so as to direct the Service to attribute the deposit to the wrong tax or period. In the effort to address these problems, the Service sought the comments and suggestions of virtually every major practitioner group. As a result, a number of improvements were made in forms, quality controls, notice clarity, systems, and taxpayer education.

Another aspect of the FTD problem flows from the Service's automated offset procedure. Under this program, tax due may be automatically paid if the taxpayer has a credit for another tax or tax period. Although the concept is sound from a tax administration perspective, the unacceptable levels of misapplied payments have caused widespread problems. Consequently, with a few exceptions, we have suspended the offset procedure.

ENHANCED TRAINING

Our training procedures have been enhanced on several levels. Through new programs we are providing our managers with increased training and with an overview of how their function relates to the entire IRS system.

We have also implemented improved and more specific computer training for operators, programmers and managers. The new curriculum combines on-the-job training with formal courses for terminal operators and first-line managers in our service centers and district offices.

ENHANCED PREPARATION

Another effort we are undertaking to improve our 1986 filing season performance is an increase in the number of National Office and inter-service center visits to exchange information on preparedness status.

INCREASED DATA VERIFICATION

The service centers have established a number of programs to increase the accuracy of the data in the system. On the front end, we are expanding the use of key verification. Similarly, notices to taxpayers are receiving an unprecedented level of review before the notices are mailed.

REDUCTION OF PROBLEM INVENTORIES

The problems that have been mentioned have resulted in extremely high levels of work inventories. These inventories include correspondence from taxpayers and internal error resolution inventories. We have diverted a substantial amount of resources from other functions to bring down these inventories. Also, we anticipate that the corrective actions mentioned will reduce the buildup of new inventories.

PROVIDING QUALITY SERVICE TO TAXPAYERS

We recognize that the inability to reach taxpayer service through the toll-free telephone system has caused great frustration for taxpayers. For next year, in addition to conducting increased Taxpayer Service training, especially on account cases, we plan significant increases in our telephone circuitry. Nationwide, we are adding an additional 336 circuits of all types, an increase of over 11 percent from 1985. This additional capacity will be allocated throughout the country, based on previous volumes and experience.

A related effort that should help ease the telephone volume coming into Taxpayer Service in 1986, and even more in 1987, is the new centralized inventory and distribution system, or CIDS. This system will operate a separate forms-only telephone network designed to speed up and streamline the forms ordering and fulfillment process.

For 1986, most of the area served by the Philadelphia, Brookhaven, and Andover service centers will be using CIDS, and CIDS should be operational nationwide in 1987. Directing these forms requests away from Taxpayer Service should free up resources to answer more substantive tax questions and account related questions.

1985 REVIEWS

We have conducted joint IRS/vendor audit reviews of computer operations in each service center, in the National Computer Center and in the national office. As a result of these reviews, an IRS task force made a number of recommendations regarding staffing, training, hardware, software, documentation and other issues.

PROJECT MANAGEMENT AND DEVELOPMENT

The problems that we faced in the wake of the recent equipment conversion have convinced us that we need to make further modifications to our project management and development practices. Just one example of the types of changes that are contemplated is the creation of the new assistant Commissioner level position for the effort to redesign the tax processing system.

IMPROVED MANAGEMENT INFORMATION SYSTEMS

In the years prior to 1985 the Service developed a series of statistical and other reports to describe the state of work flow in the centers. However, as the problems of this year's season hit the organization, managers found that they had new and increased needs for information. For the 1986 filing period, the Service has designed enhanced systems for getting necessary information to the people who can identify and solve problems.

In addition, efforts are underway to provide the analytical background that can make raw statistics meaningful. For example, in addition to reporting the raw number of unpostables (documents that cannot be recorded on our master file) research is ongoing to determine why the documents go unpostable and how the system can be changed to reduce the likelihood of future unpostables.

EMPHASIS ON QUALITY

A tax system such as ours depends on taxpayer cooperation and confidence in the IRS. In order to maintain public confidence, we know that the Service must process tax returns, issue refunds, maintain taxpayer accounts and answer millions of taxpayers' calls quickly and efficiently.

As I have described, the Service has undertaken a series of specific steps to address the technical problems in the system. However, in order to assure quality in our work, emphasis on technology alone is not the solution. The Service is now looking at the question of whether during past years of budgetary restraint there was too much emphasis and attention devoted purely to production, and not enough focus on quality and responsiveness. While the Service has long maintained quality standards, we intend to go forward with a much greater commitment to quality performance and public service. Therefore, in addition to the steps taken to improve technological functions, we have also placed increased emphasis on quality.

In addition to personally visiting our service centers to speak to managers and employees on quality, I have sent memoranda to all IRS' employees and managers requesting their personal and immediate attention to continuing high quality standards. I have directed IRS' managers to meet with their employees to stress our overall mission, to reinforce quality standards and to emphasize that the "Service" in our name must continue to have real meaning for all of us, especially the public.

One dramatic step we have taken to emphasize quality is to revise the ways we evaluate both employees and managers. In the future, quality will be one of the standards required of both categories: For employees, incentive pay arrangements in the service centers will include quality as an explicit consideration, while for managers at all levels quality will be a performance requirement for any bonuses or merit increases.

The Service has recognized the need to enhance the Quality Assurance Program, and has greatly expanded resources devoted to the program. In addition, production rates for fiscal year 1986 will not be subject to automatic increases, but will be based on the facts and circumstances of each service center. These proposed standards will be subjected to review and discussion by the National Office, regional, and service center officials in order to reach agreement on them before work plans and schedules are approved and implemented.

The processing of more than 1 billion returns and related information documents must be a production-oriented effort. But quality is not the antithesis of quantity. Rather, the resources that are used to do it over again can be better directed to doing it right the first time.

STAFFING ISSUES

Despite this increased emphasis on quality, we must recognize that there are countervailing forces that make our job much more difficult. In particular, many of our centers are currently experiencing low rates of return for the seasonal jobs available during the filing season. As with our other problems, there is no single cause. The seasonal nature of the work, the necessity for overtime during peak periods, the comparative unattractiveness of the compensation and benefit packages available, all contribute to the loss of experienced workers in the centers. For 1986, we will have the additional problems of retention and low morale that result from the negative and often inaccurate publicity and rhetoric that have been so prevalent during the last year.

The system that we have is an extremely complex one. It is impossible to go out to the market and hire people who would be immediately competent to process returns, make adjustments, correct unpostables, and perform the myriad of other jobs in our centers. These people need training and experience. As a result, staffing issues will continue to be a problem area for the Service.

CONCLUSION

In summary, we have dedicated substantial time and effort to an analysis of the 1985 filing season, and we have undertaken a wide range of steps to address the sources of the problems encountered last year. In addition to concentrating on technological difficulties, we have focused our attention on systemic and procedural changes which will improve our performance. Finally, we have renewed the Service's commitment to quality and service by increasing management emphasis on quality, communicating to employees the need for quality, and by providing increased training. While we cannot predict the future or make guarantees relative to the 1986 filing season, we can state that we are making every possible effort to identify and correct the problems we encountered last year.

We do not regard our job as finished. We are still looking at solutions to 1985 problems and exploring further improvements to our procedures. We have made substantial progress and we will continue our efforts to improve quality and service at the IRS for 1986 and the future.

My colleagues and I are available to answer any questions you or the Members may have.

Chairman PICKLE. We thank you, Commissioner Egger. You have got a very difficult job. The entire country and the Congress is depending on the IRS to give us increased and better service.

Would you say to begin with that our prospects for 1986 for handling these returns will be much better than in 1985?

Mr. EGGER. Yes, sir, I can say that without any qualification. They certainly are, Mr. Chairman.

Chairman PICKLE. But, you cannot measure the degree of the improvements. Do you think you can avoid a breakdown in the computer system so that there will not be the kind of snafu we had in 1985?

Mr. EGGER. I am confident of that. We have had not only our own technical people in but also those of the vendor of the principal mainframe system working with us constantly since last February. In the late fall we asked Electronic Data Systems Corporation, an organization that is eminently familiar with processing problems of the same nature as ours, to come look over our shoulder to see if there was a major area that we have overlooked. They gave us a series of recommendations and we have now put those together with our own analysis and recommendations. I just recently received a 95-page document which shows the current status of every single recommendation that has been made. In addition, I have appointed a 3-person implementing and tracking team made up of field officials who are themselves thoroughly familiar with service center operations, to follow these and to report to us on a periodic basis.

We think, therefore, that we have taken every step that anyone has suggested or that we can come up with on our own, and I am confident that we are not going to have anything like the serious breakdowns that we had last year.

Chairman PICKLE. Let me summarize again the initial problem you face. I read with interest the many steps you have taken to improve the processing of all these returns.

In my initial statement to you, though, I pointed out the backlog of inventories and other matters. You tell us the improvements that you have made, but I want to repeat again to you, you didn't make any mention about the backlog. You were rather silent on that.

I said in my statement, "We had 25,000 tax returns with refunds that hadn't been processed, 1.3 million pieces of taxpayers' correspondence you haven't answered. That is 38 percent over last year." I am told that the problem resolution program is swamped with cases that will now be worked out by the end of the year.

You have 1.9 million tax payments which have not been recorded or posted from 1985, 700,000 more than you had last year and the GAO has expressed serious concern about IRS ability to train and hire staff necessary to do the job.

Do you challenge that factual situation that we are told you have at the end of this year? Are those figures accurate?

Mr. **Egger**. A lot of the figures that you have I am very familiar with. The 25,000 returns from last year still are in various stages of processing. They represent problems that we have run across in the processing of the returns—some are unpostable, some are error corrections. We are making every effort to see to it that all of those are cleared out to the extent we can.

Chairman **Pickle**. You said in your statement that you were going to take steps in the next 30 days or at the end of the year to double your forces or to transfer people over to handle that additional backlog and try to get them to the lowest level possible. If you do that, you have got to transfer people from almost every section because you have got a shortage of personnel now.

What will that do to all the other programs? Won't you be shorthanded there?

Mr. **Egger**. No. Primarily, as Mr. Finch identified, the inventories in unpostables and the inventories in correspondence adjustments are the two key areas. We started out in November, with the figures that he gave you on adjustments which, for example, were $1,350,000. We have brought those down in one month down to about 1,200[illegible]00, and are continuing to bring those down fairly rapidly.

In unpostables, we also are making quite ripid progress there, as of the first of November, we had 1,700,000 in unpostables and now we are down to 1,400,000 as of December 1.

The problems of these inventories varies from center to center. In a number of our centers, I think we are in excellent shape. In others, what we have had to do is to bring people out of one function and put them in another. But in the case of unpostables, for example, people have to be trained to do that. As I said in my statement, we can't just bring them off the street and expect them to step in there and start making adjustments.

Chairman **Pickle**. Nor can we expect you to do that, but it is a problem you have. You have referred to it over and over. The Internal Revenue Service needs more qualified people. I have a feeling when you get an employee and that person gets qualified then business hires them away from you.

Mr. **Egger**. You are absolutely correct about that.

Let me give you some other figures here that I know you will be interested in, pertaining to our hiring.

Chairman **Pickle**. That kind of problem—that is always going to exist. Private enterprise is going to be looking for qualified people.

They will be hiring from the government. So that will never stop, but we have got to stay ahead of the game.

Mr. EGGER. It never stops, but it is also a problem in attempting to deal with a large buildup of inventories. For example, in our Brookhaven Service Center, we are going to have to bring into the center this year new hires of something like 1,950 people, only some 1,200 people will return to us in Brookhaven.

In Austin, we are going to have to bring in 3,100 people that have never worked in a service center before, as against the return of 300 people that we had last year. Now that is not too different from last year, and all I am saying is that given the conditions and the circumstances of the system, it is an extremely difficult problem.

We are making every effort we can and using every person that we can get in and get trained to work on these inventories. It has to be done that way.

Chairman PICKLE. Commissioner, you were here when Mr. Finch testified.

Mr. EGGER. Yes.

Chairman PICKLE. I thought he was very polite and factual and was not an adversary in the normal sense, and yet he mentioned certain areas where they had deep concern.

Mr. EGGER. Yes, sir.

Chairman PICKLE. And it is reassuring for you to tell us that we are not going to have the same fiasco or the mess we had in 1985, but——

Mr. EGGER. I am concerned, Mr. Chairman, about the very same things that Mr. Finch expressed in his report, and that is why we are addressing those on the highest priority we have.

Chairman PICKLE. I notice you have said all through your testimony that you have appointed special committees to study specific problems. Are you confident this will be effective? Incidentally, I want to ask you, you made a reference earlier to the fact that you have got the IRS Internal Audit Division and the EDS to make an analysis of the various aspects of your tax processing procedures.

Mr. EGGER. Yes.

Chairman PICKLE. We have been given copies of these reports. Is the public entitled to that information?

Mr. EGGER. I see no reason it shouldn't be public, Mr. Chairman. We are not attempting to deal with it otherwise.

Chairman PICKLE. I want you to send me up 100 copies because we are being asked by our various constituents. Can we get them?

Mr. EGGER. Yes.

Chairman PICKLE. Let me return to GAO's testimony. The GAO questions your ability to reduce your inventories to manageable levels before January 1, 1986? You say you are concentrating on that. But this backlog is greater than in years past?

Mr. EGGER. Let's take correspondence adjustments—last year we had 932,900, or just under a million. This year, as of December 1, we have about 1,200,000. So it is greater than last year, but it isn't dramatically greater. The one that bothers us the most is unpostables. It is about double.

Chairman PICKLE. Do you challenge the fact the 25,000 1985 tax refunds haven't been issued?

Mr. **Egger**. No, I am not challenging that.

Chairman **Pickle**. You have 25,000 people that could get a Christmas present, but you don't know who or where they are. What is the status of these 25,000?

Mr. **Egger**. We are in contact with a great percentage of those taxpayers, trying to straighten out the matters that keep us from processing those returns. This is not a matter of just standing there and not letting them get done. We know where the returns are, and we are in the process of either contacting the taxpayers or proceeding with correcting the error, whatever it is that is holding up the process.

Chairman **Pickle**. I assume at the end of the year you will have a certain number of returns that haven't been processed or refunds made, I don't think we can ever get a perfect balance on it. But you have 25,000 refunds that you know people are entitled to. You have got only 2 weeks left in 1985, what are chances most of those will be carried over into 1986?

Mr. **Egger**. I would hope very few of them.

Chairman **Pickle**. I know, but you are hoping you might get a big surprise under your Christmas tree, but that is not going to happen.

Mr. **Egger**. We are concentrating on seeing to it we eliminate as many of those as possible.

Chairman **Pickle**. Do you think you have sufficient staff in place as of January 1?

Mr. **Egger**. We will have sufficient staffing, but they will be very, very heavily inexperienced staff—that is, people who have never worked for us before. This is not a new circumstance.

Chairman **Pickle**. Do you have funds to hire these new people?

Mr. **Egger**. As of now, no, sir.

Chairman **Pickle**. You say no, sir?

Mr. **Egger**. No, we do not.

Chairman **Pickle**. How do you anticipate getting those funds?

Mr. **Egger**. We are in the process of dealing with both the administration and the Appropriations Committee to do that.

Chairman **Pickle**. You are asking for money in a supplemental?

Mr. **Egger**. There will undoubtedly be a supplemental; yes, sir.

Chairman **Pickle**. So the additional money you need for staffing will come, you hope, in a supplemental in 1986?

Mr. **Egger**. That will have a bearing on it, yes, sir.

Chairman **Pickle**. Have a bearing on it?

Mr. **Egger**. Right.

Chairman **Pickle**. You haven't got the money now——

Mr. **Egger**. No, we haven't got our budget for 1986 at this point.

Chairman **Pickle**. Then you need more staff people. I am not going to keep flogging a dead horse over this issue, but it seems to me like the administration should be faulted when they recommended a 5-percent cut in personnel and then have not cooperated to help us get personnel during the year. We know we get $8 to $10 more from every dollar of IRS funding.

We also have the prospect, having passed Gramm-Rudman and signing it into law, that we might be cut in 1986 $150 or $200 million more in your funding; is that not correct?

Mr. **Egger**. I am in the process of studying the Gramm-Rudman. And our preliminary review indicates that since Gramm-Rudman targets the net deficit rather than spending as such, it could have the effect of requiring that each time the net deficit target isn't going to be met that they would have to increase the Internal Revenue——

Chairman **Pickle**. You are engaged now in wishful thinking. Many of us do not know precisely how Gramm-Rudman is going to work, but we do know it is going to necessitate heavy reductions across the board in domestic programs and in defense programs——

Mr. **Egger**. If Gramm-Rudman or anything else operates so as to create for us a sizable across-the-board cut, then I can only promise you that we will once again back into the same problems that we have been living with in the past.

Chairman **Pickle**. You do not have any prospects of getting additional money in the continuing resolution being passed. Between the House and the Senate we thought we had $76 million.

Mr. **Egger**. Thank you for your support.

Chairman **Pickle**. It evaporated because we did not have the proper support in the Senate. We don't have the proper support in the continuing resolution on the other side. We end up with not $76 million, we got less than that, $43 million. So you have a shortage of personnel by virtue of the lack of Senate and administration support, and that puts you in a serious situation.

You know that in all likelihood you are going to be reduced next year in Gramm-Rudman. So it seems there ought to be a hue and cry to the administration and to the Congress that we leave IRS with sufficient funds to run the agency. Otherwise you can't do what you want to do. I don't know any commissioner who has more good intentions than you have in trying to carry out your mission.

But when I see GAO mentioning unprocessed inventories, the computer disk drives, peripheral equipment, the old front-end processors, I ask myself, you may not have the proper equipment.

Last year the IRS would get bogged down. You would have people call in and you would say, "We can't do anything. Our computer is down. We just have one system."

You won't make any book that you won't have any big problems this next year, you won't gamble and probably for a good cause.

I am concerned that with all good intentions we may have not made proper preparation here. I hope I am wrong.

Mr. **Egger**. I would like to address, if we could briefly, the equipment and technical situation in the computer system, Mr. Chairman, because I think we have done everything that we can or should do, and I believe that people who are real experts in the system and in the operations of the system pretty much agree with that.

Now, as far as the front end processor is concerned, we haven't had serious problems with the front end processor either last year or this year. We have a working agreement with the vendors on that.

They can have a piece of equipment to us in a matter of 72 hours if one should break down. In fact, we had a similar experience in Atlanta last week. The equipment didn't function correctly on

Friday, and by Saturday afternoon the vendor had a new piece of equipment on site.

However, by that time whatever the problem was had been corrected, and so we were off and running. There are contingency plans and arrangements there so that we aren't having, in my judgment, the kinds of problems that some people envision.

I have with me Ed Heironimus who is our Associate Commissioner for Data Processing. I would like him to comment as well.

Mr. **Heironimus**. Mr. Chairman, I believe it is a fact the vendor has been extremely responsive in providing support for this equipment. It is one piece of hardware that does not have a backup in each center, but they have been tremendously supportive in flying additional equipment in when necessary.

The recent instance that Mr. Egger referred to is, I think, an excellent example. I would like to touch also on the equipment delivery problem that you questioned, sir, if I may.

Chairman **Pickle**. Which equipment?

Mr. **Heironimus**. This is the peripheral equipment that Mr. Finch discussed.

Chairman **Pickle**. Yes. Yes, the disk drives.

Mr. **Heironimus**. An executive group within the Service took a look at our plans for equipment enhancements for the next couple of years, and recommended that the equipment that was to be installed in 1987 be moved up and installed in preparation for 1986, to provide the additional insurance for the 1986 filing period

This was primarily the central processing units that have been installed in each of our 10 centers. In addition to the central processing units there were, as Mr. Finch said, additional disk drives that were ordered at the same time. It is the disk drives that will not be delivered until March. However, we do not have a concern over that delivery because the capacity that those additional drives would provide is not needed, in our best judgment, for the 1986 filing season.

Now, there would be standby equipment, obviously, if a disk drive malfunctioned in one of our centers. But for the actual conduct of the 1986 filing season, my best computer experts tell me that there is no danger of running out of capacity based on the lack of those disk drives.

Chairman **Pickle**. Well, I hear you. I hope you are right. If you are not, we are going to have you back up on this carpet, again, early next year.

Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Mr. Commissioner, I know that you can't guarantee us we won't have a repeat of 1985, but have you been given enough tools that you are able to do what you think you should do to preclude those problems from happening again in 1986?

Mr. **Egger**. I want to be totally candid with you that as of right now, today, we believe that we need additional resources and additional funding for those resources.

What I have done in the past, and I will continue to do, is to divert resources from one area into another area to make sure that we operate the way we should operate in our centers, which I happen to regard as the heart or the real core of tax administration.

Let me give you a "for instance." We have concluded we need to have more trained operators in our computer rooms and we need to have them there not just during the hours of 9 to 5 or 8 to 7 or some other segment of the day, but to be there 24 hours a day, 7 days a week, so that if we have a glitch of any kind there are people there who can fix it or people there who know how to get to the people who can fix it.

I am planning to see to it that we have that functioning in that fashion, and if I have to take resources from someplace else, I will do it. It is that kind of thing. We are looking at it from the standpoint of recognizing the absolute necessity to see to it that we don't have a repeat of major problem areas that we have in the past.

Mr. SCHULZE. While we are in the area of staffing, in Mr. Finch's report, he said the IRS has developed certain strategies that he hopes will help alleviate these problems relating to personnel. Can you tell us what those strategies are?

Mr. EGGER. I am not sure what the GAO people meant by that, other than they recognize we have personnel problems. Our strategies, of course, are to try to bring the people onboard right now. We are hiring and training in all of our service centers, and we are working with the administration and with the Appropriations Committees to see to it that we have the resources in place to do that.

Mr. SCHULZE. As a followup to the hearing we had in June, you sent us a listing, a breakdown of tax returns due refunds had not been issued.

Mr. EGGER. Yes, sir.

Mr. SCHULZE. Would you send us a comparable list as of this date so we can have that as a basis of comparison?

Mr. EGGER. Yes, sir.

[The following was subsequently received:]

REFUND RETURNS STILL IN PROCESSING

As noted by Chairman Pickle in his opening remarks, and by him and the Commissioner in subsequent testimony, at the end of November 1985 the Service had some 25,000 returns with refunds due still in various stages of procssing. About half of these returns were duplicate returns.

Mr. SCHULZE. It has been noted that correspondence inventories are supposed to remain high. How soon can we expect normal levels once again?

Mr. EGGER. The correspondence inventories we anticipate will, in most if not all of the centers, be down to manageable levels by around the first of the year.

Mr. SCHULZE. Are there methods we can speed up correspondence processing without sacrificing quality?

Mr. EGGER. We are doing that to the extent we possibly can. We put in place last year a new automated correspondence control system, so that in every one of our districts, in every one of our centers, the correspondence is immediately logged electronically as soon as it gets in, so we can track it and make sure it goes to the right people and is dealt with in an expeditious fashion. We are doing our best to hold turnaround times to 30 days or less. All of that is achievable, but I don't need to say again that in order to do it, we have to have the people who know how to deal with that and we have to have them onboard. That is really what we are coming down to. I am not concerned about the technology nearly as much as I am concerned about the people, having them trained and making sure that we have adequate supervision in our centers to see to it that the job is done right the first time. We have in some cases in the service centers first line supervisors trying to direct 40 or 45 people.

Well, on its face that just does not work. It is that kind of thing we are attacking right now.

Mr. **Schulze**. Along that line, Mr. Commissioner, the EDS report stated that the management of the computer room in the service centers lack standardization and discipline. Can you tell me how that is being reacted to and what you are doing along those lines?

Mr. **Egger**. Yes, sir. We have in effect brought control of computer-room operations into the national office and have it under a specific control group here under the Assistant Commissioner—Computer Services—in the national office, so that we will be standardizing it and having complete oversight in that sense.

We also have a command post that has been set up and will operate on a 7-day-a-week, 24-hour-a-day basis, to make sure that communications in that sense are handled expeditiously—not only communications from somebody who is having a problem, but also if we have identified a problem, making sure that that is immediately known to people elsewhere in the system and so on.

Mr. **Schulze**. Now, I presume that is not being used instead of training but as a supplement to.

Mr. **Egger**. Absolutely.

Mr. **Schulze**. In other words, there are personnel capable of solving those problems as they arise, but it is a matter of you just putting in this command post for expedited communication.

Mr. **Egger**. Right. There are some other things which we will be aiming to do over the next year, such as having a complete monitoring system so that we can monitor the operations from centralized points in the country.

For example, last year people would call in to our call sites—which are not at the service centers, but these are telephone call sites—and they would be told the "computer is down." Well, it may well be that the computer was up and running, but maybe that particular terminal or that particular group of terminals was down. So we need in place a central monitoring system that will immediately detect that and let us go in and repair it immediately.

Mr. **Schulze**. Mr. Commissioner, the GAO noted that over 300,000 duplicate returns were received under the expedited refund program and that one-half of those were attributable to the Philadelphia Service Center.

Mr. **Egger**. Yes, sir.

Mr. **Schulze**. Can you bring us up-to-date or give us the latest status on that?

Mr. **Egger**. Yes; the figures are essentially correct. We had about 160,000 duplicate returns filed in the Philadelphia Center alone. About one-half of the refund returns in the country that the chairman mentioned earlier are duplicate returns yet to be processed and the other half are original returns. Those are approximately the same relative figures as in Philadelphia.

Mr. SCHULZE. So it was about 150,000 and you are down to about 75?

Mr. EGGER. No; excuse me a second.

Mr. SCHULZE. Did I interpret that correctly?

Mr. HEIRONIMUS. The total number of duplicates, sir, is 13,000, almost 14,000. And about 9,000 almost 10,000 of those are in the Philadelphia Center.

Mr. SCHULZE. How is that proceeding now? What is the status of it right now; do you know?

Mr. HEIRONIMUS. We have identified all the categories that those returns are in, such as a reject status, and we are actually dealing with the taxpayer to obtain additional information to process their returns. We know exactly how many are in unpostables.

We have complete control on where those are in the center and they are moving along.

Mr. EGGER. Incidentally, Mr. Schulze—this may be of particular interest to you—the service center director in Philadelphia and members of his staff, as well as people in the Philadelphia regional staff, come to Washington or we go to Philadelphia every week, to sit down with them for a complete status report and review of their particular circumstances.

Mr. SCHULZE. Mr. Commissioner, I hope in the long run that Philadelphia will look back and say that this perhaps was a beneficial experience. It is very painful right now but I am going to keep the pressure on until it is the finest center in the country and I would hope that would be a goal for you. It is pretty embarrassing to sit here and hear unbiased auditors say that they are at the bottom of the heap.

I think it is a challenge and I hope you take it as a challenge. I would like it to each be better than Austin.

Mr. EGGER. I would like to say to you, Mr. Schulze, that you have just articulated an objective of mine, which is to see to it that——

Chairman PICKLE. Not that it is better than Austin.

Mr. EGGER [continuing]. That we are making some progress along that line. You will be interested to know that in the case of our adjustments inventory at the moment Philadelphia is not at the bottom. They are about one or two up, so we are moving in the right direction.

Mr. SCHULZE. Moving them up. GAO was somewhat critical of your new tolerance guidelines. Do you want to respond to that?

Mr. EGGER. As you know, in any production operation there have to be tolerances. It does not make any sense to spend $300 to go out and chase 10 cents. That is obviously an extreme example, but tolerances are always present and always have been and always will be.

Last year we looked at the possibility of adjusting some of those tolerances with the hope that the ability to reduce our inventories dramatically and so on would be more desirable than pursuing smaller amounts.

We have tracked that, and candidly it has not had the dramatic result we hoped. Therefore, we are right now, today, in the process of revising once again all of those tolerances, in order to meet our present conditions and those which we forecast for next year.

Mr. SCHULZE. Finally——

Chairman PICKLE. Would you yield on that point?

Mr. SCHULZE. Certainly.

Chairman PICKLE. You state that you are going to increase your tolerance level. We stated earlier this morning—I think through GAO—that the increase of these tolerance levels, before you take action, is going to cost the Treasury somewhere around $200 million in revenue. Now, is that cost accurate?

Mr. EGGER. No, Mr. Chairman. To begin with, the figure which GAO gave was from an estimate put together by our staff in an internal document. It was on an annual basis. It also took into consideration none of the abatement process which we normally follow anyway, which is about 40 percent. And, finally, it was only put in during August.

So, pretty clearly, the purpose behind it was to see if they were cost-effective. In those cases where they have not proved to be cost-effective, we are immediately going back, and those cases where they are only borderline cost-effective we are taking another look.

Chairman PICKLE. Well, then, you question the accuracy of the GAO statement that this was not costing a considerable amount of revenue.

Mr. EGGER. No; it is just not complete, Mr. Chairman; that is all. They didn't go on into the abatement portion of it and annualizing and so on.

Chairman PICKLE. We will look into that further.

Mr. SCHULZE. In conclusion, Mr. Chairman, let me say to the Commissioner that this committee has not engaged in IRS bashing, which could be very popular at times.

Mr. EGGER. It has become popular, and I want to express my eternal gratitude to both of you——

Mr. SCHULZE. Maybe you had better hear me out. Now that we are over the peak of the problem, I think we are going to be pretty demanding. It is really tough when you are in the midst of those problems for us to come down on you with both feet. To restore the confidence in the system, we are trying to give you the best equipment. We are trying to cooperate on personnel. We may not be totally successful, but we really do want to see those bottom line results, and we are going to be watching. We are going to keep the pressure on. And we hope you deliver in all those areas.

Mr. EGGER. I agree, Mr. Schulze, because nobody wants that more than I do. We are with you as close as we can be.

Chairman PICKLE. Well, Commissioner, let me go back to the question of personnel and funding.

Mr. EGGER. Yes, sir.

Chairman PICKLE. At the beginning of our hearing this year, you did not ask for additional personnel, and you accepted the recommendation of the administration of a 5-percent reduction. We have gone through the process. The Appropriations Committee, working with this subcommittee, did get you additional funds. It was taken out in the Senate. And now, in the continuing resolution, it has been reduced to a very negligible sum. It is hardly enough to take care of attrition figures.

Now you want to hire more people for training purposes all across the board, and you need that, but you can't hire them next year until you get more moneys.

Mr. EGGER. Right.

Chairman PICKLE. I understand you said to Mr. Schulze a minute ago you were going to try to get the conferees to get this additional money. Now, that is now. It is noon now. They are going to be meeting right after lunch.

Are you going to get word to those people and appeal to the Senate conferees—to get us more money?

Mr. EGGER. I have already done that, Mr. Chairman.

Chairman PICKLE. How much are you asking for?

Mr. EGGER. We want them to at least come up and match the House side of it.

Chairman PICKLE. As to the original House Appropriations Committee?

Mr. EGGER. Yes; because of the posture of the legislation, we don't see it as likely they can go above the House mark. But we certainly think they should go at least to that.

Chairman PICKLE. Let's hope that they will do that. And though that is uncertain, it is highly necessary if we are going to give you the personnel.

I am very regretful that we waited until the date of adjournment almost to make a real effort to get these personnel when we knew all along we desperately need them. That isn't fair to the program. Yet, we find ourselves in a very difficult circumstance.

I think you have also got to recognize, because we are now facing a shortage of personnel. You have to get money either through the continuing resolution or a supplemental, rather than ask for it through the normal appropriation budget process. Whether that was the plan, that is the way it has happened. And that is very regrettable.

Let's hope that will not happen next year because there are only two agencies that make any money for the Government; that is, the Internal Revenue and maybe a little—10 percent of it from the Customs. And if we don't have the proper personnel, among other things, our rate of compliance is going to keep going down, down, down, because we don't have people to handle the IRS tax collection role.

Mr. EGGER. Ninety-two cents of every Federal dollar, Mr. Chairman, comes right through our hands.

Chairman PICKLE. So we have got a problem, we have to make up for lost time. Then you are faced with the fact Gramm-Rudman is going to cause you to make further reductions. You have got to be bold in making our request this next year, and I hope that that will be the case.

Now let me hit one more subject before we get out of here. I know that you are concerned about the flood of mail that you get from the Congress and from people in general about the taxpayer service telephone system. You promised us that you are going to get additional people on this.

I noticed in your testimony you say again you are going to do something about that. You are going to add 335 circuits or telephone outlets or whatever you do. But where are the people?

Where is the beef? Where are the people going to handle these people?

Mr. **Egger**. They are being trained right now, Mr. Chairman.

Chairman **Pickle**. You have some money for that so they are being trained on that.

Mr. **Egger**. Yes, sir.

Chairman **Pickle**. Almost every Congressman hears complaints. You get it every day:

> I called that telephone number 15 or 20 times, or I held for 20 minutes or 30 minutes before I finally got somebody to come on the phone to tell me that the computer was down.

Now, that may be an exaggeration, but it is told over and over again.

Now, it seems that we ought to return to the good old days. If you had a problem with the Internal Revenue Service you could go out and talk to somebody, and they pull out your file and you would work through it and find an answer to it somehow or another. Now it is all done by computer.

Is the day of the one-on-one, face-to-face interview gone in the Internal Revenue Service? Is it all impersonalized from now on?

Mr. **Egger**. Believe me, the day when you can walk in and somebody can pull out your file is gone, because you can't deal with 105 million taxpayers in that fashion. But what we are looking at, and I believe will be in place within a few years, is the capability to have in each of our call sites trained people who will have available to them special equipment, so that as soon as you call in they can immediately call up your account on the screen. And unless the adjustment is very, very complicated, they can correct whatever error is then causing the difficulty right then, on-line.

Chairman **Pickle**. But right then on-line to get an answer, not "We will be back with you," and they don't get any information. Many taxpayers call back and never get the same person—no one person will give their name. They do not know who they are talking to.

Mr. **Egger**. We are changing that, Mr. Chairman.

Chairman **Pickle**. You are changing that?

Mr. **Egger**. Yes, sir.

Chairman **Pickle**. That is good.

Mr. **Egger**. What we are aiming at is the very thing you get today when you call your bank and want to talk about some error in your bank account. Somebody calls it up on the screen and goes right ahead and gives you the information, or the correction is made. That is what we are looking at.

I talked with Congressman Schulze about this 2 or 3 months ago. We are making every effort to get both the equipment and the personnel in place to do that kind of thing in the near term.

Chairman **Pickle**. Well, I hope we can have as much personalized attention to a taxpayer as possible. I recognize, with millions of returns, you can't go in like the old general store and ask for a clerk to solve your problem. But, essentially, the person who is paying taxes feels like he has got the most important problem of the world in front of him.

Mr. **Egger**. He has.

Chairman **Pickle**. When he gets just a voice that cuts him off and he can't talk to anybody, he is already mad, to begin with, and it gets much worse. So, somehow we have got to make improvements, and that is going to take personnel to do it.

I would like to believe we are going to do better in 1986. I know last year was a bad year, and we had a computer that the IRS was late in getting. You found out it didn't have the capacity to handle all the returns. Processing broke down because you didn't have peripheral equipment, and a lot of returns got swallowed up—not completely lost, I assume, but swallowed up.

It was a bad year. If you had to compare it, I guess you would have to say if it was a horse race of some kind, our horse didn't even come in.

Now, this year you give me a feeling that maybe we might have a horse that could show—not place or win, but just to show. I think the public is going to at least demand that much.

I hope it is better. I hope we can see the day when we have got a winner.

You come at a time when you made it, you made the big decision, which was inevitable. But somehow we have now got to increase personnel and increase the equipment.

I repeat once more, if our rate of compliance goes down much further, we have got a serious problem in this country. None of this will work unless American people feel like they are individually paying their just share. So I would hope that you speak out boldly downtown.

I don't fault the individual IRS personnel. I think we have got good people, and we are fortunate to have them, and they get as much criticism as a Congressman in carrying out their duties. But overall, I think they do well.

Now we have just got to keep them and train more people. I hope that 1986 will bring us a better year. We are looking forward to further hearings. I hope this subcommittee, in 1986, will be able to go to some of these individual centers like we did last year—we went to three of them—and hold hearings.

We will be glad to work with you about where we go. We may even go back to Austin, and we may dare to go to Philadelphia ourselves, if you care to, Mr. Schulze. But we want to look into it and be fair. But we must be insistent that the system has got to be improved.

Mr. **Egger**. Mr. Chairman, you are simply reflecting my own views. I have no difficulty at all with what you have just said. I, myself, am beginning new trips to several of the service centers. I have been out to two of them within the last 2½ weeks, and I expect to be in Philadelphia in the near term, and others. I invite the subcommittee's participation in those visits, because I think you learn a lot from it, and certainly we are better able to articulate on site what we are doing to try to achieve the things we discussed here today.

Chairman **Pickle**. Thank you.

Mr. Commissioner, we are going to submit to you several questions that we have not been able to get to as a matter of time. We would like your prompt response to those questions, not in detail, but we have asked that of GAO. We ask that of you, to get us some kind of answer to the questions by the end of the year, so by January 1 we can take another look at this question.

Mr. EGGER. Yes, sir.

[The IRS questions and answers begin at p. 173.]

Chairman PICKLE. We appreciate your cooperation.

The committee stands adjourned.

[Whereupon, at 12 noon, the hearing was adjourned.]

FOR IMMEDIATE RELEASE
THURSDAY, DECEMBER 5, 1985

PRESS RELEASE #13
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING TO REVIEW INTERNAL REVENUE SERVICE PLANS FOR SERVICE CENTER OPERATIONS IN 1986

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to examine Internal Revenue Service plans for operation of its ten Service Centers during the next tax return filing season. The Subcommittee will receive testimony from the Honorable Roscoe L. Egger, Jr., Commissioner of the Internal Revenue Service, and representatives from the IRS' Offices of Data Processing and Inspection. In addition, the General Accounting Office (GAO) will report the results of their study, undertaken at the Subcommitte's request, to determine what action the IRS needs to take to ensure that the 1986 filing period runs smoothly.

In announcing the hearing, Congressman Pickle made the following statement: "Recent IRS mistakes, problems, and delays have seriously undermined public confidence in the Federal income tax system. Too many honest taxpayers throughout the country got caught in the IRS' errors and inefficiencies. Earlier this year, I asked the GAO to investigate all ten Internal Revenue Service Centers and report back to the Subcommittee. I look forward to receiving the GAO's recommendations and discussing the IRS' plans for the 1986 filing season. We must make sure that everything possible has been done to prevent a recurrence of this year's problems."

The hearing will be scheduled for a date in mid-December. The date, time, and place for the hearing will be announced in a subsequent press release.

* * * * *

*** * NOTICE -- DATE ANNOUNCED FOR SUBCOMMITTEE HEARING * ***

FOR IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 11, 1985

PRESS RELEASE #13-REVISED
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES THE HEARING SCHEDULE FOR ITS REVIEW OF INTERNAL REVENUE SERVICE PLANS FOR SERVICE CENTER OPERATIONS IN 1986

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U. S. House of Representatives, announced today that the Subcommittee will conduct a hearing, on Monday, December 16, 1985, to examine Internal Revenue Service plans for operation of its ten Service Centers during the next tax return filing season The hearing will be held in the Main Committee Hearing Room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

All other details for the hearing remain the same (see Press Release #13, dated December 5, 1985).

COMMISSIONER OF INTERNAL REVENUE
Washington DC 20224

JA[illegible]

RECEIVED
FEB 4 1986
Ways and Means
Subcommittee on Oversight

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
1105 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your October 23 letter concerning possible changes in the payment of interest on refund returns. I regret the delay in responding to your request but additional time was needed to develop data necessary to evaluate the alternatives.

We have costed out four proposals which may receive consideration. The cost figures are enclosed. The Service continues to favor the current law, i.e., no interest on refunds made within forty-five days of the return due date.

Any system that would require the payment of interest within a fixed time period after filing, e.g., thirty-five or forty-five days, would require the Service to alter its existing system that is designed to level workload. In an effort to match workload and staffing, it would be necessary to hire more individuals for short periods of time and then engage in frequent furloughs. Given the dynamics of the labor market, we are concerned whether we could obtain a qualified staff for such a work schedule.

The data and basic methodology used to estimate the cost of the proposals is set forth in Enclosures B through E. Essentially, we extracted the actual experience or payment of refunds for the 1984 filing season. With this information, your staff and the Joint Committee should be able to assist you in developing revenue estimates for various other proposals. You should be aware that a number of factors including year-to-year variations in interest rates, refund size, and filing pattern will affect the cost of any of the proposals.

With kind regards,

Sincerely,

Tom Persky

Tom E. Persky
Assistant to the Commissioner
(Legislative Liaison)

Enclosures

NOTE: Pickle, Schulze & Gekas inquiry into staggard filing system.

INTEREST DATA

1. Attachment A provides a chart of the returns received and processed for three years starting with calendar year 1983.

2. Under present law, the Service paid $28.8 million in interest for calendar year 1983 refunds that were processed late and $48.5 million for calendar year 1984 for refunds that were processed late.

3. Attachment B provides the amount of interest the government would pay if the refund is not made within 45 days from the date the return is received by the IRS. Interest is calculated from the date the return is received to the date the refund is issued. The interest cost is $78,169,467.

4. Attachment C provides the amount of interest the government would pay if the refund is not made wthin 45 days from the date the return is received by the IRS. Interest is calculated from the 46th day after the return is received to the date the refund is issued. The interest cost is $28,634,015

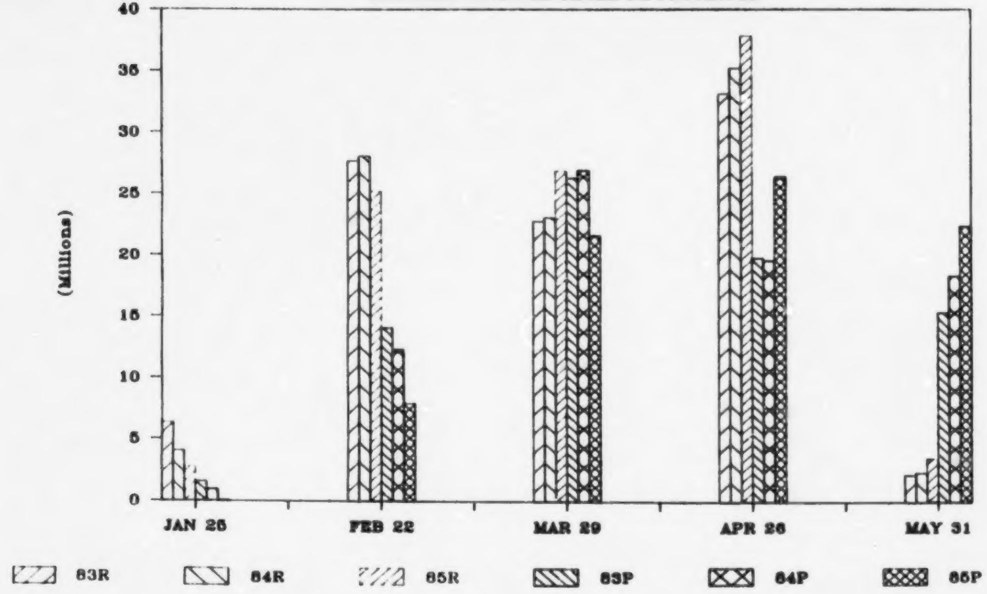
5. Attachment D provides the amount of interest that the government would pay if the refund is not made within 45 days from the date the return is received by the IRS. Interest is calculated from the 46th day after the refund is received by the IRS to the date of the refund. The interest cost is $38,689,470.

6. Attachment E provides the amount of interest the government would pay if the refund is not made within 35 days from the date the return is received by the IRS. Interest is calculated from the 36th day after the refund is received by them . Service to the date of the refund. The interest cost is $49,975,911.

ATTACHMENT A

INDIVIDUAL INCOME TAX RETURNS

MONTHLY NATIONAL RECEIPTS/PROCESSED



B

ATTACHMENT B

DAILY COMPOUNDING INTEREST FACTORS
45 DAY - 46 DAYS COMPOUNDED INTEREST

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
46	183,901,012	0.013957418	2,566,783
47	512,420,554	0.014262994	7,308,651
48	751,935,058	0.014568662	10,954,688
49	4,075,824	0.014874422	60,626
50	5,824,273	0.015180274	88,414
51	15,804,165	0.015486218	244,747
52	33,079,410	0.015792255	522,398
53	55,423,979	0.016098384	892,237
54	166,481,083	0.016404605	2,731,056
55	271,807,800	0.016710918	4,542,158
56	1,498,594	0.017017324	25,502
57	2,080,397	0.017323822	36,040
58	6,257,600	0.017630412	110,324
59	13,840,243	0.017937095	248,254
60	25,223,221	0.018243870	460,169
61	78,584,082	0.018550738	1,457,793
62	137,614,935	0.018857698	2,595,101
63	1,110,039	0.019164751	21,274
64	1,395,324	0.019471896	27,170
65	4,010,538	0.019779134	79,325
66	9,655,498	0.020086464	193,945
67	17,352,893	0.020393887	353,893
68	52,527,237	0.020701403	1,087,388
69	107,579,861	0.021009011	2,260,146
70	1,218,673	0.021316712	25,978
71	1,525,771	0.021624506	32,994
72	4,313,117	0.021932392	94,597
73	9,139,743	0.022240371	203,271
74	16,522,407	0.022548443	372,555
75	43,920,331	0.022856608	1,003,870
76	91,868,007	0.023164866	2,128,110
77	2,598,229	0.023473217	60,989
78	2,257,054	0.023781661	53,676
79	4,971,367	0.024090198	119,761
80	10,721,872	0.024398828	261,601
81	21,312,840	0.024707551	526,588
82	43,038,584	0.025016367	1,076,669
83	72,205,381	0.025325276	1,828,621
84	4,212,254	0.025634278	107,978
85	4,559,882	0.025943373	118,299
86	6,605,516	0.026252561	173,412
87	12,126,703	0.026561842	322,108
88	22,117,016	0.026871216	594,311
89	31,165,004	0.027180684	847,086
90	55,791,779	0.027490245	1,533,730
91	5,209,292	0.027799899	144,818
92	5,493,219	0.028109647	154,412

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
93	6,761,016	0.028419488	192,145
94	9,849,925	0.028729422	282,983
95	20,625,039	0.029039450	598,940
96	27,938,084	0.029349571	819,971
97	47,607,708	0.029659786	1,412,034
98	5,001,444	0.029970094	149,894
99	5,972,424	0.030280496	180,848
100	7,874,864	0.030590991	240,900
101	10,638,340	0.030901580	328,742
102	20,278,684	0.031212262	632,944
103	23,727,325	0.031523038	747,957
104	38,847,365	0.031833908	1,236,663
105	4,597,987	0.032144871	147,802
106	5,960,018	0.032455928	193,438
107	7,380,454	0.032767079	241,836
108	10,767,687	0.033078324	356,177
109	18,242,188	0.033389662	609,100
110	20,088,562	0.033701094	677,007
111	34,851,666	0.034012620	1,185,396
112	4,849,113	0.034324240	166,442
113	5,432,268	0.034635954	188,152
114	6,818,622	0.034947762	238,296
115	9,630,061	0.035259664	339,553
116	16,523,777	0.035571660	587,778
117	17,416,498	0.035883750	624,969
118	29,114,085	0.036195934	1,053,811
119	4,156,791	0.036508212	151,757
120	4,951,235	0.036820584	182,307
121	7,090,208	0.037133050	263,281
122	8,428,442	0.037445610	315,608
123	13,130,875	0.037758264	495,799
124	12,716,698	0.038071013	484,138
125	19,870,680	0.038383856	762,713
126	3,778,991	0.038696793	146,235
127	4,438,901	0.039009825	173,161
128	5,601,808	0.039322951	220,280
129	6,115,524	0.039636171	242,396
130	9,125,392	0.039949486	364,554
131	8,940,642	0.040262895	359,976
132	15,637,945	0.040576399	634,532
133	2,578,313	0.040889997	105,427
134	2,683,430	0.041203690	110,567
135	3,645,018	0.041517477	151,332
136	3,550,632	0.041831359	148,528
137	5,612,571	0.042145335	236,544
138	6,322,721	0.042459406	268,459
139	11,420,275	0.042773571	488,486
140	1,732,610	0.043087831	74,654
141	1,871,503	0.043402186	81,227
142	2,322,138	0.043716636	101,516
143	2,850,430	0.044031180	125,508
144	4,104,417	0.044345819	182,014

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
145	5,150,159	0.044660553	230,009
146	8,118,974	0.044975382	365,154
147	851,226	0.045290306	38,552
148	944,939	0.045605325	43,094
149	1,309,137	0.045920439	60,116
150	2,089,334	0.046235648	96,602
151	2,747,581	0.046550952	127,903
152	3,934,595	0.046866351	184,400
153	6,343,246	0.047181845	299,286
154	725,875	0.047497434	34,477
155	785,339	0.047813118	37,550
156	1,053,609	0.048128897	50,709
157	1,530,133	0.048444771	74,127
158	2,338,157	0.048760740	114,010
159	3,256,040	0.049076805	159,796
160	4,964,292	0.049392965	245,201
161	583,860	0.049709220	29,023
162	613,760	0.050025570	30,704
163	1,003,634	0.050342016	50,525
164	1,117,312	0.050658557	56,601
165	1,718,286	0.050975194	87,590
166	2,311,547	0.051291925	118,564
167	4,305,594	0.051608752	222,206
168	504,637	0.051925675	26,204
169	435,935	0.052242693	22,774
170	868,374	0.052559807	45,642
171	952,743	0.052877016	50,378
172	1,410,903	0.053194321	75,052
173	1,892,502	0.053511722	101,271
174	3,065,749	0.053829218	165,027
175	393,187	0.054146810	21,290
176	459,440	0.054464498	25,023
177	464,034	0.054782281	25,421
178	663,015	0.055100160	36,532
179	1,018,763	0.055418135	56,458
180	1,436,096	0.055736206	80,043
181	2,878,423	0.056054373	161,348
182	270,215	0.056372636	15,233
183	288,879	0.056690995	16,377
184	649,769	0.057009449	37,043
185	588,136	0.057327999	33,717
186	988,399	0.057646645	56,978
187	1,486,000	0.057965387	86,137
188	2,584,419	0.058284226	150,631
189	280,604	0.058603161	16,444
190	302,032	0.058922192	17,796
191	418,983	0.059241319	24,821
192	673,094	0.059560542	40,090
193	976,248	0.059879861	58,458
194	973,007	0.060199276	58,574
195	1,824,145	0.060518788	110,395
196	164,815	0.060838396	10,027

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
197	299,394	0.061158100	18,310
198	351,682	0.061477901	21,621
199	434,267	0.061797798	26,837
200	830,502	0.062117792	51,589
201	861,469	0.062437882	53,788
202	1,870,997	0.062758068	117,420
203	212,979	0.063078351	13,434
204	278,694	0.063398730	17,669
205	377,205	0.063719206	24,035
206	332,314	0.064039779	21,281
207	515,880	0.064360448	33,202
207 OR LESS	3,614,925,603		75,738,860
OVER 207	26,908,207	0.090329594 (Factor for 286 Days)	2,430,607
TOTAL	3,641,833,810		78,169,467

B(i)

ATTACHMENT C

DAILY COMPOUNDING INTEREST FACTORS
45 DAY - 1 DAY COMPOUNDED INTEREST

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
46	183,901,012	0.000301370	55,422
47	512,420,554	0.000602830	308,902
48	751,935,058	0.000904381	680,036
49	4,075,824	0.001206023	4,916
50	5,824,273	0.001507756	8,782
51	15,804,165	0.001809580	28,599
52	33,079,410	0.002111495	69,847
53	55,423,979	0.002413501	133,766
54	166,481,083	0.002715598	452,096
55	271,807,800	0.003017786	820,258
56	1,498,594	0.003320065	4,975
57	2,080,397	0.003622435	7,536
58	6,257,600	0.003924846	24,560
59	13,840,243	0.004227448	58,509
60	25,223,221	0.004530092	114,264
61	78,584,082	0.004832827	379,783
62	137,614,935	0.005135653	706,743
63	1,110,039	0.005438570	6,037
64	1,395,324	0.005741579	8,011
65	4,010,538	0.006044679	24,242
66	9,655,498	0.006347870	61,292
67	17,352,893	0.006651153	115,417
68	52,527,237	0.006954527	365,302
69	107,579,861	0.007257992	780,814
70	1,218,673	0.007561549	9,215
71	1,525,771	0.007865197	12,000
72	4,313,117	0.008168937	35,234
73	9,139,743	0.006472768	59,159
74	16,522,407	0.008776691	145,012
75	43,920,331	0.009080706	398,828
76	91,868,007	0.009384812	862,164
77	2,598,229	0.009689100	25,175
78	2,257,054	0.009993299	22,555
79	4,971,367	0.010297680	51,194
80	10,721,872	0.010602153	113,675
81	21,312,840	0.010906718	232,453
82	43,038,584	0.011211374	482,522
83	72,205,381	0.011516122	831,526
84	4,212,254	0.011820962	49,793
85	4,559,882	0.012125894	55,293
86	6,605,516	0.012430918	82,113
87	12,126,703	0.012736034	154,446
88	22,117,016	0.013041242	288,433
89	31,165,004	0.013346542	415,945
90	55,791,779	0.013651934	761,666

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
91	5,209,292	0.013957418	72,708
92	5,493,219	0.014262299	78,346
93	6,761,016	0.014568662	98,499
94	9,849,925	0.015180274	149,525
95	20,625,039	0.015486218	319,404
96	27,938,084	0.015792255	441,205
97	47,607,708	0.016098384	766,407
98	5,001,444	0.016404605	82,047
99	5,972,424	0.016710918	99,805
100	7,874,864	0.017017324	134,009
101	10,638,340	0.017323822	184,297
102	20,278,684	0.017630412	357,522
103	23,727,325	0.017937095	425,599
104	38,847,365	0.018243870	708,726
105	4,597,987	0.018550738	85,296
106	5,960,018	0.018857698	112,392
107	7,380,454	0.019164751	141,445
108	10,767,687	0.019471896	209,667
109	18,242,188	0.019779134	360,815
110	20,088,562	0.020086464	403,508
111	34,851,666	0.020393887	710,761
112	4,849,113	0.020701403	100,383
113	5,432,268	0.021009011	114,127
114	6,818,622	0.021316712	145,351
115	9,630,061	0.021624506	208,245
116	16,523,777	0.021932392	362,406
117	17,416,498	0.022240371	387,349
118	29,114,085	0.022548443	656,477
119	4,156,791	0.022856608	95,010
120	4,951,235	0.023164866	114,695
121	7,090,208	0.023473217	166,430
122	8,428,442	0.023781661	200,442
123	13,130,875	0.024090198	316,325
124	12,716,698	0.024398828	310,273
125	19,870,680	0.024707551	490,956
126	3,778,991	0.025016367	94,537
127	4,438,901	0.025325276	112,416
128	5,601,808	0.025634278	143,598
129	6,115,524	0.025943373	158,657
130	9,125,382	0.026252561	239,565
131	8,940,642	0.026561842	237,480
132	15,637,945	0.026871216	420,211
133	2,578,313	0.027180684	70,080
134	2,683,430	0.027490245	73,768
135	3,645,018	0.027799899	101,331
136	3,550,632	0.028109647	99,807
137	5,612,571	0.028419488	159,506
138	6,322,721	0.028729422	181,648
139	11,420,275	0.029039450	331,639
140	1,732,610	0.029349571	50,851
141	1,871,503	0.029659786	55,508
142	2,322,138	0.029970094	69,595

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
143	2,850,430	0.030280496	86,312
144	4,104,417	0.030590991	125,558
145	5,150,159	0.030901580	159,148
146	8,118,974	0.031212262	253,412
147	851,226	0.031523038	26,833
148	944,939	0.031833908	30,081
149	1,309,137	0.032144871	42,082
150	2,089,334	0.032455928	67,811
151	2,747,581	0.032767079	90,030
152	3,934,595	0.033078324	130,150
153	6,343,246	0.033389662	211,799
154	725,875	0.033701094	24,463
155	785,339	0.034012620	26,711
156	1,053,609	0.034324240	36,164
157	1,530,133	0.034635954	52,998
158	2,338,157	0.034947762	81,713
159	3,256,040	0.035259664	114,807
160	4,964,292	0.035571660	176,588
161	583,860	0.035883750	20,951
162	613,760	0.036195934	22,216
163	1,003,634	0.036508212	36,641
164	1,117,312	0.036820584	41,140
165	1,718,286	0.037133050	63,805
166	2,311,547	0.037445610	86,557
167	4,305,594	0.037758264	162,572
168	504,637	0.038071013	19,212
169	435,935	0.038383856	16,733
170	868,374	0.038696793	33,603
171	952,743	0.039009825	37,166
172	1,410,903	0.039322951	55,481
173	1,892,502	0.039636171	75,012
174	3,065,749	0.039949686	122,476
175	393,187	0.040262895	15,831
176	459,440	0.040576399	18,642
177	464,034	0.040869997	18,965
178	663,015	0.041203690	27,319
179	1,018,763	0.041517477	42,296
180	1,436,096	0.041831359	60,074
181	2,878,423	0.042145335	121,312
182	270,215	0.042459406	11,473
183	288,879	0.042773571	12,356
184	649,769	0.043087831	27,997
185	588,136	0.043402186	25,526
186	988,399	0.043716636	43,209
187	1,486,000	0.044031180	65,430
188	2,584,419	0.044345819	114,608
189	280,604	0.044660553	12,532
190	302,032	0.044975382	13,584
191	418,983	0.045290306	18,976
192	673,094	0.045605325	30,697
193	976,248	0.045920439	44,830
194	973,007	0.046235648	44,988

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
195	1,824,145	0.046550952	84,916
196	164,815	0.046866351	7,724
197	299,394	0.047181845	14,126
198	351,682	0.047497434	16,704
199	434,267	0.047813116	20,764
200	830,502	0.048128897	39,971
201	861,469	0.048444771	41,734
202	1,870,997	0.048760740	91,231
203	212,979	0.049076805	10,452
204	278,694	0.049392965	13,766
205	377,205	0.049709220	18,751
206	332,314	0.050025570	16,624
207	515,880	0.050342016	25,970
207 OR LESS	3,614,925,603		26,222,762
OVER 207	26,908,207	0.089610315 (Factor for 241 Days)	2,411,253
TOTAL	3,641,833,810		28,634,015

B(ii)

ATTACHMENT D

DAILY COMPOUNDING INTEREST FACTORS
45 DAY - 10 DAYS COMPOUNDED INTEREST

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
46	183,901,012	0.003017786	554,974
47	512,420,554	0.003320065	1,701,270
48	751,935,058	0.003622435	2,723,836
49	4,075,824	0.003924846	15,997
50	5,824,273	0.004227448	24,622
51	15,804,165	0.004530092	71,594
52	33,079,410	0.004832827	159,867
53	55,423,979	0.005135653	284,638
54	166,481,083	0.005438570	905,419
55	271,807,800	0.005741579	1,560,606
56	1,498,594	0.006044679	9,059
57	2,080,397	0.006347870	13,206
58	6,257,600	0.006651153	41,620
59	13,840,243	0.006954527	96,252
60	25,223,221	0.007257992	183,070
61	78,584,082	0.007561549	594,217
62	137,614,935	0.007865197	1,082,369
63	1,110,039	0.008168937	9,068
64	1,395,324	0.006472768	9,032
65	4,010,538	0.008776691	35,199
66	9,655,498	0.009080706	87,679
67	17,352,893	0.009384812	162,854
68	52,527,237	0.009689100	508,942
69	107,579,861	0.009993299	1,075,078
70	1,218,673	0.010297680	12,550
71	1,525,771	0.010602153	16,176
72	4,313,117	0.010906718	47,042
73	9,139,743	0.011211374	102,469
74	16,522,407	0.011516122	190,274
75	43,920,331	0.011820962	519,181
76	91,868,007	0.012125894	1,113,982
77	2,598,229	0.012430918	32,298
78	2,257,054	0.012736034	28,746
79	4,971,367	0.013041242	64,833
80	10,721,872	0.013346542	143,100
81	21,312,840	0.013651934	290,961
82	43,038,584	0.013957418	600,708
83	72,205,381	0.014262299	1,029,815
84	4,212,254	0.014568662	61,367
85	4,559,882	0.015180274	69,220
86	6,605,516	0.015486218	102,294
87	12,126,703	0.015792255	191,508
88	22,117,016	0.016098384	356,048
89	31,165,004	0.016404605	511,250
90	55,791,779	0.016710918	932,332

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
91	5,209,292	0.017017324	88,648
92	5,493,219	0.017323822	95,164
93	6,761,016	0.017630412	119,199
94	9,849,925	0.017937095	176,679
95	20,625,039	0.018243870	376,281
96	27,938,084	0.018550738	518,272
97	47,607,708	0.018857698	897,772
98	5,001,444	0.019164751	95,851
99	5,972,424	0.019471896	116,294
100	7,874,864	0.019779134	155,758
101	10,638,340	0.020086464	213,687
102	20,278,684	0.020393887	413,561
103	23,727,325	0.020701403	491,189
104	38,847,365	0.021009011	816,145
105	4,597,987	0.021316712	98,014
106	5,960,018	0.021624506	128,882
107	7,380,454	0.021932392	161,871
108	10,767,687	0.022240371	239,477
109	18,242,188	0.022548443	411,333
110	20,088,562	0.022856608	459,156
111	34,851,666	0.023164866	807,334
112	4,849,113	0.023473217	113,824
113	5,432,268	0.023781661	129,188
114	6,818,622	0.024090198	164,262
115	9,630,061	0.024398828	234,962
116	16,523,777	0.024707551	408,262
117	17,416,498	0.025016367	435,698
118	29,114,085	0.025325276	737,322
119	4,156,791	0.025634278	106,556
120	4,951,235	0.025943373	128,452
121	7,090,208	0.026252561	186,136
122	8,428,442	0.026561842	223,875
123	13,130,875	0.026871216	352,843
124	12,716,698	0.027180684	345,649
125	19,870,680	0.027490245	546,250
126	3,778,991	0.027799899	105,056
127	4,438,901	0.028109647	124,776
128	5,601,808	0.028419488	159,201
129	6,115,524	0.028729422	175,695
130	9,125,382	0.029039450	264,996
131	8,940,642	0.029349571	262,404
132	15,637,945	0.029659786	463,818
133	2,578,313	0.029970094	77,272
134	2,683,430	0.030280496	81,256
135	3,645,018	0.030590991	111,505
136	3,550,632	0.030901580	109,720
137	5,612,571	0.031212262	175,181
138	6,322,721	0.031523038	199,311
139	11,420,275	0.031833908	363,552
140	1,732,610	0.032144871	55,695
141	1,871,503	0.032455928	60,741
142	2,322,138	0.032767079	76,090

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
143	2,850,430	0.033078324	94,287
144	4,104,417	0.033389662	137,045
145	5,150,159	0.033701094	173,566
146	8,118,974	0.034012620	276,148
147	851,226	0.034324240	29,218
148	944,939	0.034635954	32,729
149	1,309,137	0.034947762	45,751
150	2,089,334	0.035259664	73,669
151	2,747,581	0.035571660	97,736
152	3,934,595	0.035883750	141,188
153	6,343,246	0.036195934	229,600
154	725,875	0.036508212	26,500
155	785,339	0.036820584	28,917
156	1,053,609	0.037133050	39,124
157	1,530,133	0.037445610	57,297
158	2,338,157	0.037758264	88,285
159	3,256,040	0.038071013	123,961
160	4,964,292	0.038383856	190,549
161	583,860	0.038696793	22,594
162	613,760	0.039009825	23,943
163	1,003,634	0.039322951	39,466
164	1,117,312	0.039636171	44,286
165	1,718,286	0.039949686	68,645
166	2,311,547	0.040262895	93,070
167	4,305,594	0.040576399	174,706
168	504,637	0.040869997	20,625
169	435,935	0.041203690	17,962
170	868,374	0.041517477	36,053
171	952,743	0.041831359	39,855
172	1,410,903	0.042145335	59,463
173	1,892,502	0.042459406	80,355
174	3,065,749	0.042773571	131,133
175	393,187	0.043087831	16,942
176	459,440	0.043402186	19,941
177	464,034	0.043716636	20,286
178	663,015	0.044031180	29,193
179	1,018,763	0.044345819	45,178
180	1,436,096	0.044660553	64,137
181	2,878,423	0.044975382	129,458
182	270,215	0.045290306	12,238
183	288,879	0.045605325	13,174
184	649,769	0.045920439	29,838
185	588,136	0.046235648	27,193
186	988,399	0.046550952	46,011
187	1,486,000	0.046866351	69,643
188	2,584,419	0.047181845	121,938
189	280,604	0.047497434	13,328
190	302,032	0.047813116	14,441
191	418,983	0.048128897	20,165
192	673,094	0.048444771	32,608
193	976,248	0.048760740	47,603
194	973,007	0.049076805	47,752

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
195	1,824,145	0.049392965	90,100
196	164,815	0.049709220	8,193
197	299,394	0.050025570	14,977
198	351,682	0.050342016	17,704
199	434,267	0.050743401	22,036
200	830,502	0.051117637	42,453
201	861,469	0.051492007	44,359
202	1,870,997	0.051866510	97,042
203	212,979	0.052241146	11,126
204	278,694	0.052615916	14,664
205	377,205	0.052990819	19,988
206	332,314	0.053365856	17,734
207	515,880	0.053741026	27,724
207 OR LESS	3,614,925,603		36,173,624
OVER 207	26,908,207	0.093497336 (Factor for 251 Days)	2,515,846
TOTAL	3,641,833,810		38,689,470

B(iii) ATTACHMENT E

DAILY COMPOUNDING INTEREST FACTORS
35 DAY - 1 DAY COMPOUNDED INTEREST

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
36	75,802,011	0.000301370	22,844
37	202,551,673	0.000602830	122,104
38	511,628,938	0.000904381	462,707
39	778,317,051	0.001206023	938,668
40	2,104,355,668	0.001507756	3,172,855
41	2,726,194,322	0.001809580	4,933,267
42	11,203,207	0.002111495	23,656
43	23,707,745	0.002413501	57,219
44	52,141,714	0.002715598	141,596
45	103,062,636	0.003017736	311,021
46	183,901,012	0.003320065	610,563
47	512,420,554	0.003622435	1,856,210
48	751,935,058	0.003924846	2,951,229
49	4,075,824	0.004227448	17,230
50	5,824,273	0.004530092	26,384
51	15,804,165	0.004832827	76,379
52	33,079,410	0.005135653	169,884
53	55,423,979	0.005438570	301,427
54	166,481,083	0.005741579	955,864
55	271,807,800	0.006044679	1,642,991
56	1,498,594	0.006347870	9,513
57	2,080,397	0.006651153	13,837
58	6,257,600	0.006954527	43,519
59	13,840,243	0.007257992	100,452
60	25,223,221	0.007561549	190,727
61	78,584,082	0.007865197	618,079
62	137,614,935	0.008168937	1,124,168
63	1,110,039	0.006472768	7,185
64	1,395,324	0.008776691	12,246
65	4,010,538	0.009080706	36,419
66	9,655,498	0.009384812	90,615
67	17,352,893	0.009689100	168,134
68	52,527,237	0.009993299	524,920
69	107,579,861	0.010297680	1,107,823
70	1,218,673	0.010602153	12,921
71	1,525,771	0.010906718	16,641
72	4,313,117	0.011211374	48,356
73	9,139,743	0.011516122	105,254
74	16,522,407	0.011820962	195,311
75	43,920,331	0.012125894	532,573
76	91,868,007	0.012430918	1,142,004
77	2,598,229	0.012736034	33,091
78	2,257,054	0.013041242	29,435
79	4,971,367	0.013346542	66,351
80	10,721,872	0.013651934	146,374

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
81	21,312,840	0.013957418	297,472
82	43,038,584	0.014262299	613,829
83	72,205,381	0.014568662	1,051,936
84	4,212,254	0.015180274	63,943
85	4,559,882	0.015486218	70,615
86	6,605,516	0.015792255	104,316
87	12,126,703	0.016098384	195,220
88	22,117,016	0.016404605	362,821
89	31,165,004	0.016710918	520,796
90	55,791,779	0.017017324	949,427
91	5,209,292	0.017323822	90,245
92	5,493,219	0.017630412	96,848
93	6,761,016	0.017937095	121,273
94	9,849,925	0.018243870	179,701
95	20,625,039	0.018550738	382,610
96	27,938,084	0.018857698	526,848
97	47,607,708	0.019164751	912,390
98	5,001,444	0.019471896	97,388
99	5,972,424	0.019779134	118,129
100	7,874,864	0.020086464	158,178
101	10,638,340	0.020393887	216,957
102	20,278,684	0.020701403	419,797
103	23,727,325	0.021009011	498,488
104	38,847,365	0.021316712	828,098
105	4,597,987	0.021624506	99,429
106	5,960,018	0.021932392	130,717
107	7,380,454	0.022240371	164,144
108	10,767,687	0.022548443	242,795
109	18,242,188	0.022856608	416,955
110	20,088,562	0.023164866	465,349
111	34,851,666	0.023473217	818,081
112	4,849,113	0.023781661	115,320
113	5,432,268	0.024090198	130,864
114	6,818,622	0.024398828	166,366
115	9,630,061	0.024707551	237,935
116	16,523,777	0.025016367	413,365
117	17,416,498	0.025325276	441,076
118	29,114,085	0.025634278	746,319
119	4,156,791	0.025943373	107,841
120	4,951,235	0.026252561	129,983
121	7,090,208	0.026561842	188,329
122	8,428,442	0.026871216	226,482
123	13,130,875	0.027180684	356,906
124	12,716,698	0.027490245	349,585
125	19,870,680	0.027799899	552,403
126	3,778,991	0.028109647	106,226
127	4,438,901	0.028419488	126,151
128	5,601,808	0.028729422	160,937
129	6,115,524	0.029039450	177,591
130	9,125,382	0.029349571	267,826
131	8,940,642	0.029659786	265,178
132	15,637,945	0.029970094	468,671

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
133	2,578,313	0.030280496	78,073
134	2,683,430	0.030590991	82,089
135	3,645,018	0.030901580	112,637
136	3,550,632	0.031212262	110,823
137	5,612,571	0.031523038	176,925
138	6,322,721	0.031833906	201,277
139	11,420,275	0.032144871	367,103
140	1,732,610	0.032455928	56,233
141	1,871,503	0.032767079	61,324
142	2,322,138	0.033078324	76,812
143	2,850,430	0.033389662	95,175
144	4,104,417	0.033701094	138,323
145	5,150,159	0.034012620	175,170
146	8,118,974	0.034324240	278,678
147	851,226	0.034635954	29,483
148	944,939	0.034947762	33,024
149	1,309,137	0.035259664	46,160
150	2,089,334	0.035571660	74,321
151	2,747,581	0.035883750	98,594
152	3,934,595	0.036195934	142,416
153	6,343,246	0.036508212	231,581
154	725,875	0.036820584	26,727
155	785,339	0.037133050	29,162
156	1,053,609	0.037445610	39,453
157	1,530,133	0.037758264	57,775
158	2,338,157	0.038071013	89,016
159	3,256,040	0.038383856	124,979
160	4,964,292	0.038696793	192,102
161	583,860	0.039009825	22,776
162	613,760	0.039322951	24,135
163	1,003,634	0.039636171	39,780
164	1,117,312	0.039949686	44,636
165	1,718,286	0.040262895	69,183
166	2,311,547	0.040576399	93,794
167	4,305,594	0.040869997	175,970
168	504,637	0.041203690	20,793
169	435,935	0.041517477	18,099
170	868,374	0.041831359	36,325
171	952,743	0.042145335	40,154
172	1,410,903	0.042459406	59,906
173	1,892,502	0.042773571	80,949
174	3,065,749	0.043087831	132,096
175	393,187	0.043402186	17,065
176	459,440	0.043716636	20,085
177	464,034	0.044031180	20,432
178	663,015	0.044345819	29,402
179	1,018,763	0.044660553	45,499
180	1,436,096	0.044975382	64,589
181	2,878,423	0.045290306	130,365
182	270,215	0.045605325	12,323
183	288,879	0.045920439	13,265
184	649,769	0.046235648	30,042

DAYS FROM RECEIPT TO REFUND	PRINCIPAL FOR WHICH INTEREST IS DUE TAXPAYERS	INTEREST FACTOR	INTEREST PAID
185	588,136	0.046550952	27,378
186	988,399	0.046866351	46,323
187	1,486,000	0.047181845	70,112
188	2,584,419	0.047497434	122,753
189	280,604	0.047813116	13,417
190	302,032	0.048128897	14,536
191	418,983	0.048444771	20,298
192	673,094	0.048760740	32,821
193	976,248	0.049076805	47,911
194	973,007	0.049392965	48,060
195	1,824,145	0.049709220	90,677
196	164,815	0.050025570	8,245
197	299,394	0.050342016	15,072
198	351,682	0.050658557	17,816
199	434,267	0.050975193	22,137
200	830,502	0.051291925	42,598
201	861,469	0.051608752	44,459
202	1,870,997	0.051925675	97,153
203	212,979	0.052242693	11,127
204	278,694	0.052559807	14,648
205	377,205	0.052877016	19,945
206	332,314	0.053194321	17,677
207	515,880	0.053511722	27,606
207 OR LESS	10,203,890,568		47,460,066
OVER 207	26,908,207	0.093497336 (Factor for 251 Days)	2,515,846
TOTAL	10,230,798,775		49,975,911

December 16, 1985

STATEMENT
of
CONGRESSMAN GEORGE W. GEKAS (PA)
on

"THE NEED FOR A STAGGERED-FILING TAX SYSTEM"

before the
WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT
THE HON. J.J. PICKLE, CHAIRMAN

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I thank you for allowing me the opportunity to appear before this subcommittee regarding my proposal, H.R. 3760, to implement a staggered system of filing individual income taxes.

The concepts of tax reform and tax simplification are often spoken of in one voice, as though being the same. They can, however, be entirely separate, even contradictory, terms. During the recent deliberations on the 1985 tax reform bill at least one aspect of tax simplification was sadly absent: simplification of the ritual agony of filing taxes on April 15. One could certainly deduce that the correct equation for tax reform in the 99th Congress would be tax reform ≠ tax simplification.

The logjam of tax returns filed every April 15 has historically caused administrative problems for the Internal Revenue Service. My bill would break the April 15 logjam, providing a more even distribution of refunds and receipts, reducing processing backlogs and making the annual mess on April 15 a distant memory.

IRS Commissioner Roscoe Egger himself told me that "part of the difficulties this year were caused when we received more than one-half the returns in the entire country in the last two weeks of the filing season." Members of the Subcommittee, we are talking about 100 million returns, 50 million of which were filed between April 1 and April 15. Mr. Egger also said that, "As long as people continue to file that late then our ability to handle that massive number of returns in a short time frame is going to be sorely tested."

I propose that the Internal Revenue Service implement a system for filing individual taxes on a staggered-date basis to replace the current single-date system, that is, allow individual filers to file at different times throughout the tax year rather than all at once on April 15. The virtues of a staggered filing system are many. It would spread out the millions of returns received on or around April 15 of each year throughout the entire year, allowing for a smoother consideration of the returns by the IRS. Tax preparers would be able to spend more time on each filing if their work "year" would be a full twelve months and not just the few months around tax time.

The staggered tax system provided for in H.R. 3760 is keyed to the filer's birthday. A filer would be required to file by the last day of his/her month of birth. For example, filers born in January, February, March or April would be required to file by April 15, the current date; filers born in June would be required to file by the end of June; those born in September must file by the end of September; and so on. Joint filers would be required to choose one birthdate under which to determine their filing month.

May I point out that my proposal would change only the final filing date of individual or joint tax returns and makes no change in corporate or business tax or in how W-2's and other tax forms are distributed to the taxpayer. A filer could still file as early as he/she desires but only as late as the staggered system would dictate.

While H.R. 3760 proposes a staggered system based on the birth month, I and other proponents of the staggered filing concept are reviewing other similar plans as alternatives to the "birthday" concept. Concepts such as keying the staggered system to the last digit in the filer's social security number or the first letter in a filer's last name are under consideration. In fact, I would like to consider any and all staggered proposals that might be floating around in the chance that one of them will be the best plan because "staggered" is what the tax filing system of the future will be and that's what we want to implement now.

Since my proposal was introduced on November 14 with Representative Joe DioGuardi as an original cosponsor the public reaction has been overwhelmingly positive and constructive. I have received many, many letters and calls of support from citizens all over the country. Some letters and calls were from lay citizens who only wanted to improve the way they file their taxes. Other correspondences were from people in the tax profession --lawyers, accountants, former IRS employees-- who have an in-depth knowledge of taxes and tax law. All have told me that they would much prefer to operate with a staggered system of filing taxes. I've appeared on several radio shows nationwide--stations like KTSA (San Antonio, TX), KVEN (Ventura, CA), WXOK (St. Louis, MO), and WKBO (Harrisburg, PA)--and have received the same level of support. Newspaper editorials, from the Ventura (CA) Free Press to the Roanoke (VA) Timesand World Report to the Shamokin (PA) News-Item and the Christian Science Monitor have all expressed support for an immediate reform of the IRS collection and processing system. I submit copies of these news clips as well as a letter to the editor and a summary of some citizen remarks on my concept for the subcommittee's record.

Last week, on December 11, 1985, the House Republican Research Committee's Task Force on Economics, Chaired by Representative Rod Chandler (Washington) and Vice-Chaired by Representative Joe Dioguardi (New York), submitted a Preliminary Report on the Concept of Staggered Filing of IRS Tax Returns, which I present to the subcommittee for the record. The Task Force believes this concept merits the serious consideration of the 99th Congress. The preliminary report said, "It is one of the few ideas proposed that goes beyond simply complaining about the present administration of our tax system or penalizing the IRS for poor performance."

In a recent correspondence with Treasury Secretary James A. Baker III he indicated to me the administrations's support for a serious review of my staggered filing concept:

> "As the President told you yesterday, your recommendation makes a lot of sense and deserves careful study. Accordingly, I have directed both the Internal Revenue Service and the Office of Tax Policy to conduct a comprehensive study of your proposal. And as I told you, I have also talked to Chairman Rostenkowski about it, and he has directed the Ways and Means Committee to examine your plan." (see attachment)

In conclusion, Mr. Chairman, I would say to the subcommittee that the challenge of tax simplification is to admit that current policies can and must be improved; a solution make itself evident from that point on. Consideration and implementation by this subcommittee of the staggered filing concepts presented in H.R. 3760 would be a major step towards the public goal of tax simplification. I urge that the subcommittee move ahead expeditiously on implementing a staggered system of filing taxes.

Thank you for your attention.

# # #

ROD CHANDLER WASHINGTON
CHAIRMAN

JOSEPH J. DIOGUARDI NEW YORK
VICE CHAIRMAN

RICHARD K. ARMEY TEXAS
ROBERT K. DORNAN CALIFORNIA
BILL FRENZEL MINNESOTA
PAUL B. HENRY MICHIGAN
JOHN R. KASICH OHIO

TASK FORCE ON ECONOMICS
HOUSE REPUBLICAN RESEARCH COMMITTEE
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Preliminary Report on the Concept of Staggered Filing of IRS Tax Returns

by

THE TASK FORCE ON ECONOMICS
OF THE HOUSE REPUBLICAN CONFERENCE'S RESEARCH COMMITTEE

December 11, 1985

Abstract

The logjam of tax returns filed every April 15th has historically caused administrative problems for the Internal Revenue Service. More specifically, these problems have recently been exacerbated by the implementation of a new IRS computer system in the Philadelphia Service Center that has been the subject of numerous glitches. The result of this "processing by crisis" has been late refunds, lost tax forms, and irate taxpayers around the country.

Congressman Gekas has introduced a bill (HR 3760) to break the April 15 logjam by staggering the filing dates for individuals, providing more even distribution of refunds and receipts, reducing processing backlogs, and making the annual mess on April 15 a distant memory.

The Problem

The specter of "tax day" every April 15th sparks strong emotions in the hearts of most Americans. Some individuals quickly file returns in anticipation of refunds, then wait and wonder if their refunds will be received in a timely manner or received at all. Some file at the last possible minute because they owe additional tax, have simply procrastinated, or have had to wait as their tax preparation professionals wade through mountains of tax returns. The scene of long lines of taxpayers outside local post offices every April 14 is all too familiar. As one recent example of IRS bureaucratic bungling, a new Univac 1100 computer system was installed at the IRS' Philadelphia Service center that was the source of many problems, including a backlog of unprocessed tax returns, and lost or incorrectly processed returns. According to a November 1985 report issued by the General Accounting Office in there were also several substantiated incidents of returns that were thrown in the trash, misfiled, closed before they were completely processed or were simply destroyed.

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One cost of these actions is that the interest paid by the IRS on late refunds sent to taxpayers in 1985 was 56.4% above that paid in 1984 -- costing a total of over $41 million. Another cost of the April 15 logjam is the great number of our constituents who angrily call their Members of Congress with horror stories of extremely late refund checks, difficulty in penetrating the continually busy IRS phone lines at regional problem resolution centers, confrontations with IRS staff, unwarranted late payment notices threatening punitive actions, etc. Even our own staffs have had great problems untangling the IRS bureaucratic web.

The blame for this intolerable situation cannot rest solely on computer failure. As IRS Commissioner Roscoe Egger, Jr., said to Congressman George Gekas last June, "... part of the difficulty this year was caused when we received more than one-half the returns in the entire country in the last two weeks of the filing season. As long as people continue to file that late then our ability to handle that massive number of returns in a short time frame is going to be sorely tested."

An IRS report issued in 1977 confirms this conclusion and observes:

> "IRS must hire and train many thousands of temporary employees each year, and provide work space for them to process mountains of tax returns. Consequently, during the remaining seven months of each year, IRS has large areas of vacant work space and expensive equipment going largely unused. Similar problems exist with the IRS Taxpayer Service program. IRS is expected to render quality service to the public at all times of the year. Yet if IRS were to develop a large enough professional staff of full time Taxpayer Service Representatives to handle the filing period rush, it would be unable to profitably use them during the rest of the year. Consequently, IRS must hire some temporary help for, and detail some Tax Auditors to, the Taxpayer Service program for the filing period.
>
> "Tax practitioners may similarly find it necessary to beef-up their offices with temporary staff, work 80 hour weeks, and still find it necessary to request extensions of time for filing, or perhaps even turn away clients who seek return preparation help."

These administrative bleeps and blunders can only have a negative effect on the integrity of America's voluntary tax system. The U.S. House Appropriations Committee estimates that compliance with the income tax law will drop from 84% in 1974 to 81.6% in 1986, costing the federal government $92 billion in lost revenues.

A Solution - Staggered Filing

Last month Congressman George W. Gekas introduced legislation to break up the April 15 logjam by replacing the current deadline with staggered filing dates throughout the year. Such a change would likely free the IRS staff from the April 15 gridlock to work in a more freely flowing system, producing clearer and quicker action on each return, and more aptly serving the intent of the law and the citizens it serves.

Congressman Gekas initially proposes to have birthday-based deadlines, with persons whose birthdays fall between January 1 and April 30 filing no later than April 15, and persons whose birthdays fall in any month after April filing by the last day of their birth month. Like current law, any filer may file prior to the required birth month deadline.

Under this plan, only individuals would be affected. Employers would still provide W-2 forms to employees in the beginning of the year, and the self employed would continue to make quarterly payments with only their filing date changed. Joint filers would choose one birth date as their joint filing date.

The Task Force believes this concept merits serious consideration. It is one of the few ideas proposed that go beyond simply complaining about the present administration of our tax system or penalize the IRS for poor performance. While Congressman Gekas has initially advanced the specific concept of birthday-based filing of tax returns, he, like the Task Force, is actively examining alternate plans for staggering tax filing deadlines, including, but not limited to, filing deadlines tied to a digit in individuals' social security numbers. The important consideration here remains our strong belief that some reasonable, fair, and effective method of staggering tax filing dates and eliminating the April 15 annual mess should be vigorously pursued by the Congress and the Executive Branch.

While there may be changes in the time of year the IRS receives revenues under a staggered filing system (because presumably persons owing additional taxes would put off payment until their birth date deadline later in the year), the IRS should be able to offset that cost by saving money that now goes to interest payments to persons who get unduly late refunds. Even if most people continue to file early in the year under the Gekas plan, the net revenue coming to the IRS (taxes paid minus refunds) now is relatively evenly distributed throughout the year, according to information provided by the Congressional Research Service (see attached), and would not change significantly; the majority of individual tax receipts come to the IRS in a regular fashion already by virtue of employer withholding of taxes. Perhaps one possible change in revenue received would be that net receipts would be actually more evenly distributed over the year.

Much has been made of a 1977 report by the IRS on alternative filing systems that concludes that the present system is better than certain staggered filing plans. An objective reading of this report shows that the three plans studied by the IRS bear little resemblance to the Gekas plan. One plan provided for birthday-based filing dates on which individuals would be required to file; the Gekas plan allows people to file as early in the year as they wish. The second plan studied would create two different tax years, one year for half the populations, the second year for the other half; Gekas' plan does not change the current tax year for anyone. The third plan revolved around the offer of monetary incentives to affect changes in individuals' filing habits, which the IRS discarded as costly and complicated; Gekas plan makes no mention of this approach.

Public Reaction

Initial reaction to the Gekas plan has been favorable. The Ventura (California) Free Press said in a November 6 editorial, "Mr. Gekas seems to have identified a significant problem... His arguments for creating a staggered filing system are worthy." The Roanoke (Virginia) Times and World Report on November 12 editorialized that "Rep. George W. Gekas has what looks like a sound idea... It makes sense." The Shamokin (Pennsylvania) News-Item wrote on October 25 that "... the plan is so simple that it's a wonder it wasn't thought of before... The Gekas plan should be added to general tax reform plans being considered by Congress."

Task Force Vice-Chairman Joseph J. DioGuardi has reported a great interest in the Gekas plan by the American Institute of Certified Public Accountants, which is closely monitoring this issue. Other groups representing tax preparation professionals can be expected to offer some support to some form of staggered tax filing, according to Congressman DioGuardi, himself a former accountant with Arthur Andersen and Co.

In his role as Chairman of the Task Force on Tax Reform for the "92 Group," a group of Members of Congress, Congressman Rod Chandler has become aware of a high interest among Members of Congress in tax "simplification" that must necessarily accompany any meaningful tax "reform" passed by the Congress.

Task Force Study

The House Republican Task Force on Econ [illegible] strongly believes the Gekas plan merits further, serious consideration without delay. In this regard, the Task Force announces it will immediately begin preparation of an in-depth study of this concept, gathering input from the committees and Members of Congress, the Executive Branch, interested private sector groups, and the general public. The report, with legislative and administrative recommendations for action, is scheduled for completion and release to the public on or before March 30, 1986. The Task Force welcomes constructive comment from all persons, and hopes to develop a consensus of opinion on the concept of a staggered tax filing system for individuals.

TABLE 1. Individual Income Tax Receipts: Withheld, Other, Refunds, and Net By Month, Tax Years 1982, 1983, and 1984
(millions of dollars)

1982	Withheld	+	Other	—	Refunds	=	Net
January	20,810		12,000		163		32,646
February	23,886		1,608		4,487		21,007
March	23,318		4,329		14,255		13,391
April	22,705		35,282		16,315		41,672
May	20,972		1,182		12,580		9,576
June	21,913		11,779		1,417		32,275
July	23,773		2,233		2,019		23,987
August	20,572		1,529		1,185		20,867
September	21,814		11,429		651		32,592
October	19,541		1,791		500		20,832
November	22,079		1,153		779		22,452
December	23,843		1,906		804		24,946
1983							
January	20,953		13,217		18		34,151
February	22,288		1,974		3,717		20,544
March	24,808		3,613		12,764		15,658
April	21,636		31,969		18,564		35,040
May	22,205		1,137		16,958		6,384
June	23,641		11,134		2,003		32,773
July	21,437		2,163		1,662		21,938
August	22,519		1,969		1,228		23,259
September	21,060		11,596		1,695		30,961
October	21,720		2,022		515		23,227
November	22,550		1,011		861		22,700
December	24,482		1,948		854		25,577
1984							
January	21,070		12,728		-82		33,881
February	23,523		1,505		2,838		22,190
March	26,877		2,785		16,766		12,895
April	22,321		31,998		15,127		39,192
May	23,519		1,277		20,463		4,333
June	23,347		11,199		2,346		32,200
July	23,013		792		1,407		22,398
August	25,072		2,397		1,649		25,820
September	21,852		11,717		2,027		31,541
October	24,721		1,463		559		25,624
November	24,573		1,036		816		24,792
December	25,979		2,003		929		27,054

Source: U.S. Department of the Treasury. Office of the Secretary. Treasury Bulletin, Table FFO-2, Various issues.

TABLE 2. Tax Returns Filed Through April and Through December for Tax Years 1980 to 1984
(number of returns in thousands)

Tax Year (Returns filed in year)	1980 (1981)	1981 (1982)	1982 (1983)	1983 (1984)	1984 (1985)
Returns filed through April	89,154	90,670	89,964	90,407	92,611
Returns filed through December	92,551	95,520	95,609	97,898	100,900
Returns filed through April as a percent of returns filed through December	96.3%	94.9%	94.1%	92.3%	91.8%

Source: U.S. Department of the Treasury. Internal Revenue Service. Statistics of Income Bulletin, Summer 1985, p. 29.

99TH CONGRESS
1ST SESSION

H. R. 3760

To amend the Internal Revenue Code of 1954 to allow certain taxpayers to elect to use their birth month as the month in which to file their tax return.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 14, 1985

Mr. GEKAS (for himself and Mr. DIOGUARDI) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the Internal Revenue Code of 1954 to allow certain taxpayers to elect to use their birth month as the month in which to file their tax return.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. ELECTION TO FILE TAX RETURN AT END OF BIRTH MONTH.

Section 6072 of the Internal Revenue Code of 1954 (relating to time for filing income tax returns) is amended by adding at the end the following new subsection:

"(f) ELECTION TO FILE AT END OF BIRTH MONTH.—

"(1) INDIVIDUAL RETURNS.—An individual who makes a return for a taxable year under section 6012 or 6017 on the basis of the calendar year may elect to file the return on the last day of the month in which the individual's birthday falls, if the birthday falls in the month of May, June, July, August, September, October, November, or December.

"(2) JOINT RETURNS.—A husband and wife who make a joint return for a taxable year under section 6013 on the basis of the calendar year may elect to file such return on the last day of the month in which the birthday of either the husband or wife falls, if the birthday falls in a month listed in paragraph (1).

"(3) APPLICABILITY; NO REVOCATION WITHOUT CONSENT.—An election made under this subsection shall apply to the taxable year for which the return is being filed and to all subsequent taxable years. Except as provided in regulations, an election made under this subsection may not be revoked unless the Secretary consents to such revocation.

"(4) REGULATIONS.—The Secretary shall prescribe regulations for carrying out this subsection, including regulations on the time and manner in which this subsection shall be applied in the case of marriage or divorce.

"(5) CROSS REFERENCE.—For provisions relating to estimated tax payments for individuals making an election under this subsection, see section 6654(l)."

SEC. 2. COORDINATION WITH ESTIMATED TAX PAYMENTS.

Section 6654 of the Internal Revenue Code of 1954 (relating to failure by individual to pay estimated income tax) is amended by redesignating subsection (l) as subsection (m) and by inserting after subsection (k) the following new subsection:

"(l) SPECIAL RULE FOR INDIVIDUALS FILING AT END OF BIRTH MONTH.—For purposes of this section, if an individual has in effect an election under section 6072(f) (relating to election to file at end of birth month) for a taxable year, the amount of the required annual payment for such taxable year shall be determined under subsection (d)(1)(B)—

"(1) by substituting '100 percent of the estimated tax paid by the individual for the preceding taxable year' for clause (ii) of such subsection, and

"(2) by adding before the period of the last sentence of subparagraph (B) the following: 'or if the individual paid an addition to tax under subsection (a) with respect to such preceding taxable year'."

SEC. 3. EFFECTIVE DATE.

The amendments made by sections 1 and 2 shall apply to taxable years beginning after December 31, 1985, and to estimated tax payments made for such taxable years.

○

December 16, 1985

QUOTES FROM VARIOUS LETTERS RECEIVED BY
CONGRESSMAN GEORGE W. GEKAS
ON
H.R. 3760
LEGISLATION TO IMPLEMENT A STAGGERED TAX FILING SYSTEM

"I was pleased to learn of your recent proposal to replace the current single income-tax filing deadline with a system of staggered filing dates ... It was encouraging to discover that we both share such an important objective."

Robert Half, President, Robert Half International, Inc., an accounting, financial and data processing recruiting organization.

"I agree that there should be staggered times for the filing of returns... It is a much-needed and long-overdue improvement in the tax collectin process..."

William Prickett, lawyer, Prickett, Jones, Elliott, Kristol, and Schnee.

"Thank you for your help in trying to resolve the filing deadline problem...It just doesn't make sense for everybody to file on the same date, and it is terribly wasteful of resources."

Robert N. Palmer, Certified Public Accountant

"...Staggering the due dates of tax returns is an outstanding one ... Suggestions to improve our tax system are imperative at this point if we are to maintain our voluntary compliance system."

Neil B. Godick, Certified Public Accountant, Goodick and Company

"If indeed a tax packge is passed, it would seem to be the time to make a change such as the proposed staggered tax filing system ... The overload problem with the IRS must be addressed, and this proposal would also obviously more evenly distribute the accountant's workload - rather than their being swamped with work for a shor period around April 15 ... The concept just makes a lot of sense."

Richard Beason, Certified Public Accountant, Ernst and Whinney

"We are a large tax preparation firm in the Philadelphia area, and we believe that this measure would not only reduce the backlog and overflow, but would also reduce the cost involved for the Internal Revenue Service to process them ... This would be a more efficient system ... I don't believe that these plans would add complexity for nothing is more complex than having one hundred million personal returns all due the same day each year."

Ronald L. Noll, President, PA Society of Public Accountants

"I think it would be an excellent idea that the Philadelphia center is obviously in need of ... It would also be of great assistance to all the the citizens of the country and the individuals who prepare their taxes for them."

John F. Chubb, Certified Public Accountant, Chubb and Associates

"Congratulations!... I feel certain that every federal taxpayer would wholeheartedly favor your legislation..."

Leroy J. Regan, a Pennsylvania constituent.

Letter to the Editor
October 30, 1985

Dear Editor:

Who would have thought that Halloween -- a day observed yearly with evening parades of trick or treating ghosts and goblins -- would arrive months early to play trick or treat on the American taxpayers? No one. For too many taxpayers across the country Halloween actually came on April 15 when we began hearing the first of many horror stories about chaotic conditions nationwide at Internal Revenue Service tax return processing centers, causing problems and frustrations for taxpayers trying to obtain their 1984 tax refunds.

Some of us in the U.S. Congress have been led to believe, through newspaper accounts and the IRS itself, that many of the delays in processing tax returns and issuing refund checks were caused by some unknown "ghosts and goblins" in the IRS's new computer system. Even congressional offices asked by desperate taxpayers to help work through the IRS computer maze found it hard to penetrate the continually busy phone signal of the IRS congressional assistance office to request action on lost refund checks, unwarranted IRS late-payment notices and a whole host of other administrative ills.

While some of the bleeps and blunders that have occurred can be blamed on computer failure, the blame cannot rest there solely. Part of the reason for the problems rests with the fact that 100 million tax returns must be filed with the IRS by April 15. While that figure alone is overwhelming, it has been estimated that by the year 1990, that number will double to 200 million.

Even IRS Commissioner Roscoe Egger, Jr., commented to me during a meeting in my office last June that ". . . part of the difficulty this year was caused when we received more than one-half the returns in the entire country in the last two weeks of the filing season. As long as people continue to file that late then our ability to handle that massive number of returns in a short time frame is going to be sorely tested."

The recent tax-simplification measures offered by President Reagan and others presents us with a unique opportunity to truly reform all aspects of the tax system to make it a fair, just and simple law all could easily follow and understand. However, focus should also be centered on the implementation of a new staggered system of filing income tax returns.

It seems that many administrative problems suffered by the IRS occur from the crunch of filers associated with the fixed April 15 filing deadline. I am proposing through legislation to change that deadline to be birthday-based rather than fixed. A filer whose birthday falls between January 1 and April 30 would be required to file by April 15, as in current law. Any filer whose birthday falls in any month following April would be required to file by the last day of that birth month. Joint filers would choose one birth date as their joint filing date. As with current law, any filer may file prior to the required birth month deadline.

QUESTIONS RAISED

1. Will altering the filing deadline change the present system of employer mailing of W-2 forms? No. Employees will continue to receive their W-2 forms at the beginning of the year.

2. Will there be a delay in receiving refund checks? No. Because the flow of returns to the IRS will be staggered, the IRS will be able to process returns and send refund checks out quicker. Also, any filer may file prior to the required birth month deadline.

3. Will this plan adversely affect the self employed who do not receive W-2 forms? No. Quarterly payments are retained, only the filing date is changed.

There is no doubt that questions and concerns associated with instituting a staggered filing system will arise; they will be addressed during subsequent House review of the proposal.

The intent of this staggered filing proposal is to reduce the horrible conditions of backlog and overflow that presently overwhelm IRS offices all over the country. Freeing the IRS staff from the April 15 grid-lock to work in a more freely flowing system will produce clearer and quicker action on each return, more aptly serving the intent of the law and the citizens it serves.

Very truly yours,

George W. Gekas

GEORGE W. GEKAS
Member of Congress

THE SECRETARY OF THE TREASURY
WASHINGTON

December 12, 1985

Dear George:

I enjoyed seeing you yesterday and discussing your recommendation for the implementation of a staggered filing system for income tax returns.

As the President told you yesterday, your recommendation makes a lot of sense and deserves careful study. Accordingly, I have directed both the Internal Revenue Service and the Office of Tax Policy to conduct a comprehensive study of your proposal. And as I told you, I have also talked to Chairman Rostenkowski about it, and he has directed the Ways and Means Committee to examine your plan.

We will certainly keep you and your staff informed on this issue.

Sincerely,

Jim

James A. Baker, III

The Honorable George W. Gekas
House of Representatives
Washington, D.C. 20515

Additional attachments have been retained in the committee files. They are:

1. "Gekas' IRS Plan Good Idea." Editorial. The Shamokin News-Item (Pennsylvania). October 25, 1985.
2. "Staggering Income-Tax Deadlines." Editorial. Roanoke Times and World News (Virginia). November 12, 1985.
3. "Tax Reform--Another Part." Editorial. The Christian Science Monitor. November 25, 1985.
4. "Bill Would Spread Tax Deadlines Over a Year." Article. The Philadelphia Inquirer (Pennsylvania). November 11, 1985.

STATEMENT OF

JOHNNY C. FINCH, SENIOR ASSOCIATE DIRECTOR

GENERAL GOVERNMENT DIVISION

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here this morning to assist the Subcommittee in its inquiry into the activities of IRS' service centers. Our testimony today is based on information that we gathered during our examination, at this Subcommittee's request, into the problems experienced by IRS' 10 service centers during 1985.

The information in this statement is based on the results of extensive interviews of officials at IRS' 10 service centers and its National Office and the review and analysis of various statistics, memoranda, and reports prepared by groups within and outside IRS, including IRS' Office of Internal Audit.

As has been chronicled by different sources during the year, IRS encountered numerous problems in 1985 that caused serious disruptions to service center operations (of which the processing of tax returns is the most significant) and that severely strained taxpayer relations. There were many reasons for those disruptions, most of which can be related in one way or another to the introduction of a new service center computer system and related input systems. IRS has taken, is taking, and plans to take several steps to correct the problems encountered during 1985 and to provide for a less disruptive processing season in 1986. Considering that IRS has had a year's experience with its new systems, we believe those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985. There are a few potential problems, however, that cause us to hesitate about predicting a "normal" processing season and that cause us concern about the tax administration system in general. There are also a couple of issues, relating to future computer procurements and effective communication within IRS, that could affect years beyond 1986 and that we think warrant discussion at these hearings. Another unknown is the impact that the Gramm-Rudman Act will have on IRS' funding.

I would now like to discuss the above matters in greater detail.

WHAT HAPPENED THIS YEAR?

During 1985, IRS' 10 service centers had difficulty processing tax returns timely, controlling the flow of tax returns as they moved through the processing system, and keeping non-return processing case inventories at a manageable level. As a result (1) more refunds were delayed in 1985 than in the past and interest payments on late refunds increased substantially, (2) many taxpayers had to file duplicate returns to "expedite" receipt of their refunds, (3) erroneous taxpayer notices were issued, (4) correspondence and other inventories swelled, (5) the number of telephone calls from taxpayers grew, (6) overtime costs increased, and (7) the productivity of service center personnel declined significantly. Specifically:

(1) According to information compiled by IRS for an October 1985 briefing of the Office of Management and Budget (OMB),

> "Refunds for individual returns have in the past been issued within four to eight weeks depending upon the date the return was filed . . . . This past year, many more problems were encountered than usual causing an even longer lapse in refund issuance."

Besides the obvious inconvenience to taxpayers, delays in issuing refunds cost the Government money because IRS is generally obligated to pay interest on any refund that is not issued within 45 days of the date the return was filed or the return due date, whichever comes later. In that regard, as of November 8, 1985,

--IRS had issued 48.3 percent more refunds with interest to individual taxpayers compared to a similar period for 1984 (2,192,604 interest bearing refunds in 1985 versus 1,478,074 in 1984) even though the total number of refunds issued to individual taxpayers from January 1 to October 31, 1985, increased only 1.2 percent compared to a similar period in 1984 (71,787,000 refunds in 1985 versus 70,959,000 in 1984).

--IRS had paid 56.4 percent more in interest on refunds to individual taxpayers than in a similar period for 1984 ($42.8 million in 1985 versus $27.3 million in 1984) even though the total dollar amount of refunds (exclusive of interest) issued to individual taxpayers from January 1 to October 31, 1985, increased only 2.4 percent compared to a similar period in 1984 ($60.8 billion versus $59.4 billion).

(2) IRS established an Expedite Refund Program under which taxpayers who had not received their refunds within 16 weeks could file a duplicate return, which would then receive expedited processing by IRS. As of October 11, 1985, the service centers had received a total of 308,240 duplicate returns. The Philadelphia Service Center accounted for 157,141 of those duplicates.

(3) In a November 1, 1985, report, IRS' Office of Internal Audit noted that

> "Certain business tax returns and tax payments were not timely processed which caused erroneous notices. These notices either incorrectly advised taxpayers that they had not filed tax returns when they had already filed or erroneously billed taxpayers when they had already made payments."

The most prominent example involved a Federal Tax Deposit tape that was not processed in a timely manner by the Philadelphia Service Center causing most of the 26,800 business taxpayers whose deposits (totaling about $296.9 million) were recorded on that tape to receive at least one erroneous balance due notice.

Another example of an untimely processed computer tape involved about $3 million in payments from about 5,600 taxpayers. This tape, which was not timely processed by the Kansas City Service Center, caused erroneous collection actions, including issuance of 114 erroneous levies. Service center collection staff had to call the affected taxpayers and levy sources to determine the status of the levies, apologize for their issuance, and provide instructions on how to handle the levies.

A third example involved 58 tapes containing over 4 million information documents accounting for an estimated $3 billion in interest and dividend income reported to IRS by payers, such as banks and insurance companies. We identified this example during our ongoing review of IRS' Information Returns Program.

Thirty-three of the 58 tapes, containing about 2.8 million documents from 519 payers, were "lost" in the system because of weaknesses in the receipt and control of computer tapes between the Atlanta and Cincinnati Service Centers and IRS' National Computer Center (NCC). As a result, the information on these tapes was not posted to the automated master files and notices were sent to banks and other organizations erroneously advising them that they were subject to fines and other penalties for failing to report information that they had, in fact, already reported. These 33 tapes were eventually erased. To recover the data, IRS could have asked the payers to resubmit the information, but IRS advised us that this would put too much additional strain on its relations with taxpayers. The remaining 25 tapes, containing about 1.3 million documents, were overlooked at NCC but were still in the tape library. We brought this to IRS' attention, and they subsequently processed the tapes to update the master file.

IRS does not have overall statistics on the number of erroneous notices issued in 1985. However, information compiled by IRS on the results of 1.48 million math error notices that had been reviewed by service center quality reviewers during the first 9 months of 1985, before the notices were sent to taxpayers, showed that 220,200, or 14.8 percent, were incorrect. During those 9 months, the service centers had issued a total of 16.9 million math error notices to individual taxpayers.

(4) As of the end of October 1985, the 10 service centers had a total of 1,334,279 cases in their adjustments/

correspondence inventories, compared to 968,950 cases at that time in 1984. One of IRS' two criteria for determining a manageable adjustments/correspondence inventory (hereinafter referred to as correspondence inventory) is that no more than 20 percent of the cases in the inventory remain unresolved for more than 45 days. Of the controlled cases in the inventory at the end of October 1985, however, 73 percent were more than 45 days old.

Unpostable inventories also increased. An unpostable condition is one that prevents a transaction that has been processed through the service center from posting to the taxpayer accounts (otherwise known as the master file) at NCC. As of the end of October 1985, the 10 service centers had a total of 1,911,009 cases in their unpostable inventories, compared to 859,212 cases at that time in 1984.

(5) During the first 18 weeks of the May - September period, IRS responded to about 600,000 more telephone calls than it did during the same period of 1984. The number of overflow telephone calls (calls that went unanswered) also increased--from 13.6 million in 1984 to 47 million in 1985.

(6) Overtime usage from January 1 through September 30 at the 10 service centers increased from 606 staff years in 1984 to 869 staff years in 1985, an increase of 43.3 percent.

(7) Productivity at the 10 service centers declined 18.3 percentage points during the first 6 months of 1985 compared to the first 6 months of 1984. Using IRS data, we estimated the

direct staff hour costs associated with this decline to be $24.7 million. Adding overhead costs increases the estimated cost of the decline to about $38.6 million. Attachment I to this statement provides further information on how we computed this estimate.

PROBLEMS IN 1985 AND STEPS IRS HAS TAKEN TO PREVENT THEIR RECURRENCE

The difficulties IRS and the taxpaying public experienced in 1985 were attributable to several problems ranging from insufficient computer capacity to ineffective processing controls to inadequate training. Having itself recognized the existence of these problems, IRS has taken, or has indicated that it plans to take, several steps in an attempt to prevent their recurrence. This section is devoted to a discussion of those problems and IRS' corrective actions.

Computer capacity and software problems

This year IRS implemented the Service Center Replacement System (SCRS), which involved the purchase of a Univac 1100 series computer system from Sperry Corporation and the rewriting of about 1,500 computer programs. At the start of the 1985 filing season, a combination of insufficient computer capacity and inefficient computer software associated with SCRS adversely affected the service centers. These computer capacity and software problems played a major role in creating returns processing backlogs, document control problems, and excessive correspondence inventory levels.

On January 1, 1985, 7 of the 10 service centers did not have the computer capacity needed to handle their 1985 filing season workload. IRS planned, by that date, to have upgraded each center's existing Univac 1100/83 computer with one more central processing unit to form a Univac 1100/84. However, because the contractor was late delivering the central processing units, four centers--Andover, Brookhaven, Cincinnati, and Philadelphia--did not have the additional central processing units ready for use until dates ranging from mid-January to mid-February. According to National Office officials, however, Cincinnati did not need its additional processing unit at the beginning of the processing season. Also, the four largest centers--Fresno, Austin, Ogden, and Atlanta--were supposed to have both a Univac 1100/84 and a Univac 1100/82 computer ready for use during the 1985 processing season. However, the 1100/82 computers were not fully usable at these four centers until March when the tape drives needed to effectively operate the computer programs were received and a faulty central processing unit was replaced in Atlanta.

Besides not having full computer capacity on January 1, the centers did not receive the computer programs used to process tax returns until mid-January--a week later than needed. According to National Office officials, the delays occurred because testing of the programs had not been completed.

Throughout the filing season, the service centers experienced problems with computer programs. One significant problem involved programs that took longer to run than they should have--attributable, at least in part, to the fact that the programs had been rewritten by IRS programmers who were relatively inexperienced in the new program language (COBOL).

On weekends, for example, the centers are supposed to update their data bases with information received from NCC. The data bases consist primarily of files on active or potentially active taxpayer accounts and are used by various center functions, such as the correspondence, collection, and examination sections. The weekend updates need to be completed by Monday so that those functions have the files available to do their work. According to information maintained by the National Office, however, the weekend updates often were not completed by 6:00 Monday morning during the first 19 weeks of the processing season at 7 of the 10 service centers.

	Number of weeks for which weekend update was not completed by 6:00 a.m. Monday during the first 19 weeks of the processing season
Andover	3
Atlanta	13
Austin	11
Brookhaven	15
Cincinnati	1
Fresno	17
Kansas City	12
Memphis	8
Ogden	15
Philadelphia	14

In addition to being unavailable at the start of the workday on Monday, the files were not always available during the week. For example, our analysis of reports compiled by IRS' National Office showed that of the 102 scheduled processing days between February 19 and July 12, 1985, the service centers experienced an average of 79 days when operations were interrupted. The number of days interruptions occurred ranged from 61 at Andover to 89 at Kansas City.

Another major problem experienced by all 10 service centers involved inadequate checkpoint routines in the programs. A computer program that takes a long time to run should have checkpoint routines built into the program at various intervals so that if the program fails it can be restarted from the last good checkpoint instead of from the beginning of the program. However, programs were received that either did not contain good checkpoint routines or contained no checkpoint routines at all. As a result, programs that failed had to be rerun from the beginning instead of from checkpoints. This, in turn, increased the time required to update the service center files and decreased the availability of those files to the users.

IRS' corrective actions

To help overcome the problems created by insufficient computer capacity and inefficient programs in 1985, IRS processed some information at NCC and at a State of Pennsylvania computer facility.

To alleviate processing backlogs, NCC processed 113 days of tax return data from the Brookhaven Service Center between March 14, 1985, and August 30, 1985. This represented 62 percent of Brookhaven's daily batches processed between January 1, 1985, and September 23, 1985.

IRS contracted with the State of Pennsylvania to use a Univac 1100/82 at the State's computer facility in Harrisburg, Pennsylvania. Using the Harrisburg computer, IRS personnel processed 344.6 million information returns between April 1, 1985, and June 30, 1985, and also processed tax return data for the Philadelphia and Kansas City Service Centers.

Since the beginning of the filing season, the National Office has been rewriting computer programs to make them more efficient in terms of both processing time and computer capacity used. For example:

--National Office officials told us that programs used to process the service centers' daily workloads were rewritten so that the time to process those workloads has been reduced by an estimated 75 to 80 percent. Service center officials confirmed that those programs are now running faster.

--The computer program to identify taxpayers who underreported income on their income tax returns, according to an Ogden official, took 15 tape drives to process at the beginning of the 1985 filing season but only took 5 after the program was rewritten.

--At the beginning of 1985, computer programs for updating the service centers' business and individual data files on the weekends prevented users from querying the files while they were being updated. According to National Office officials, the programs were changed so that users could query the individual file while the business file was being updated, and vice versa. As a result, the amount of realtime available to users increased.

In addition, the restart problem has been corrected. According to National Office officials, all computer processing routines that take 1 hour or more to complete now have checkpoints so that the routine can be restarted from an interim point rather than completely re-run.

In preparing for 1986, IRS has given each service center additional computer capacity. Additional central processing units were delivered to the centers in August and September 1985. Considering these most recent units, the three largest service centers (Fresno, Austin, and Ogden) now have eight central processing units each--an increase of 2 over 1985; Atlanta and Brookhaven have seven units each--an increase of 1 and 3, respectively; and the other five service centers have six units each--an increase of two. Additional disk drives and disk controllers are scheduled to be installed before January and others are scheduled to be delivered in April 1986.

To address its near-term computer capacity needs, IRS is developing an acquisition strategy which proposes a competitive replacement of the existing Sperry Univac computer system. Under this replacement project, known as the Capacity Enhancement Processing System (CEPS), IRS is proposing to acquire 11 replacement computer and disk systems subject to functional specifications requiring the most current technology available. IRS information available to us indicated that the first replacement system would be installed in a service center in August 1988, with the final system installation to be completed by December 1988.

In the long-term, IRS is planning to completely redesign and replace the returns processing system with a state-of-the-art system. That system is to be implemented during the early 1990s.

Some transcribed data were not processed by the computer

The Distributed Input System (DIS), which consists of a series of video display terminals connected to a minicomputer, is used to enter payment and tax return data into the master computer. It was first used to process individual income tax return data in 1985. During the 1985 filing season, all 10 service centers encountered problems transferring tax return and payment data from the DIS minicomputer to the master computer. The problem of payment data not getting processed timely was a major concern of service center management because if payments did not get posted to taxpayers' accounts the taxpayers could receive erroneous balance due notices.

According to service center officials, a combination of operator error and faulty software design was the major reason why the payment data from the DIS minicomputer were not being transferred to the master computer. They said some data transcribers were not aware that if new data were entered into DIS before the DIS minicomputer had completed processing, the prior data would not transfer to the master computer. Not realizing this, and because there were no computer controls to prevent it, the operators would press the "mode" key on the DIS terminal keyboard believing that this would allow them to work the next payment block sooner. Instead, the mode key stopped the DIS minicomputer from processing the block that had already been transcribed and prevented the data from transferring to the master computer. As a result, not only would these "dropped" payments not be credited to the taxpayers' accounts, but the money amounts on the DIS generated deposit ticket would be less than the actual amount of remittances sent to the bank for deposit. The centers also experienced similar problems transferring tax return data to the master computer. In addition to the "mode key" problem, IRS officials attributed the dropped block problem to faulty software, faulty hardware, and inexperienced personnel not following proper transfer procedures.

IRS' corrective actions

To ensure that taxpayers' accounts were credited and that deposit tickets balanced with actual remittances, the service centers had to manually reconcile the output from DIS with the DIS input records. This manual reconciliation process took additional staff resources. For example, Andover needed two full-time staff and Kansas City three full-time staff to do this reconciliation. Also, Brookhaven sent staff to the bank for 3 days to straighten out the discrepancies between the DIS generated deposit tickets and the actual remittances sent to the bank.

Also, on February 22, 1985, the National Office directed the service centers to begin manually balancing computer runs to ensure that processing was complete on all data previously transcribed.

In September 1985, IRS began testing two revised computer programs to automate some of the manual balancing procedures. DIS has been modified to provide a "mismatch" listing of (1) blocks of data (e.g., returns) not transmitted from the DIS minicomputers to the master computer and (2) blocks of data that were transmitted to the master computer but did not appear on the Univac computer listing.

In addition, the National Office is also modifying programs to provide a simplified and streamlined run-to-run control for the daily processing of returns, which will ensure that output totals for each computer application balance with input totals before the data is released. Programs are being modified to halt when an imbalance is detected. The computer operator would be expected to resolve the imbalance and continue the run. These modified programs are scheduled to be implemented starting on January 1, 1986. Later in 1986, IRS plans to begin implementing fully automated run-to-run balancing.

Transcribed data did not balance with the service center control file

The service centers experienced a large number of instances where blocks of documents that were transcribed into the computer did not balance with the information on the service center control file. This year, all the service centers had difficulty resolving the out-of-balance conditions. For example, during May 1985, which was the height of the processing season, the service centers had, in total, over 3 million documents in blocks that were out of balance with the control file. The large number of out-of-balance cases prevented returns from being processed timely, thereby delaying some refunds.

There were several reasons for the high number of out-of-balance cases. One reason was that the computer was programmed to create out-of-balance conditions that, according to service center officials. could have been handled more effectively in other returns processing areas. In 1984, for example, cases involving information within a block of returns that was transcribed out of sequence were sent to the error resolution section where the sequence errors were corrected individually. In 1985, however, the computer was programmed to create an out-of-balance condition if a sequence error occurred, and the case was directed to that service center function responsible for resolving out-of-balance conditions. This meant that the entire block of returns would be held up in the processing system in 1985 as opposed to 1984 when only those individual returns with sequence errors would have to be corrected. This programming change accounted for a substantial number of out-of-balance conditions. According to a November 1985 Internal Audit report, sequence errors accounted for over 25 percent of the out-of-balance cases at two service centers from January through March.

Another reason for the large number of out-of-balance cases was that, unlike prior years, the information transcribed from the block header card, such as the document locator number, was not key verified--that is, the information was not transcribed a second time by another data transcriber to insure its accuracy. An incorrectly transcribed document locator number could create an out-of-balance condition because the number on the block of returns being transcribed would not match the number on the control file.

The service centers not only had large volumes of out-of-balance cases, but also had difficulty resolving the out-of-balance conditions because the computer generated registers that identify the out-of-balance blocks were not printed timely. Ideally, these registers are printed at the end of the day while the returns are still physically located in the data transcription area. However, during the filing season, at 8 of the 10 service centers, the registers were often printed 2 to 3 days after the returns had been transcribed. In addition, according to officials in six service centers, the registers did not contain enough information on the conditions that caused the blocks to be out of balance to allow examiners working the cases to readily resolve the balancing problem.

Seven service centers had problems readily resolving out-of-balance cases because, by the time the registers were received, carts containing these returns had been physically moved to other returns processing areas, such as the error resolution and files areas. As a result, more time was needed to physically locate the returns before the out-of-balance conditions could be corrected.

IRS's corrective actions

To reduce the number of out-of-balance cases caused by data transcription errors, IRS, in August 1985, required key verification of all block header information. IRS also reprogrammed its computers to allow returns where data was transcribed out of sequence to be handled by the error resolution section, as had been the procedure in 1984. To make it easier for examiners to resolve out-of-balance conditions, IRS has changed the computer-generated registers that identify out-of-balance blocks to more clearly define the out-of-balance condition. IRS statistics show that the number of documents in the 10 centers' block out-of-balance inventories at November 15, 1985, totaled about 130,000--which IRS considers manageable.

Error resolution cases backlogged in the returns processing pipeline

Computer-related problems helped to create backlogs in the error resolution stage of the returns processing cycle, which is where IRS processing errors and taxpayer errors identified by the computer are corrected. The backlog, which prevented returns from being processed timely and which reached about 2.4 million cases nationwide at the beginning of May, was caused primarily by unavailability of the Error Resolution System (ERS). ERS is the on-line system used to make the corrections directly into the computer. It was first used to process individual income tax returns in 1985. In 9 of the 10 service centers, IRS officials said that ERS was not always available to correct errors. For example, a Kansas City official estimated that ERS was down 97 hours from March 3 through May 25, and an Atlanta official estimated that ERS was not available for 274 hours between January and June. Atlanta officials estimated that because of ERS downtime, 15,548 staff hours of production time were lost.

Officials at seven service centers told us that efforts to correct tax return errors were also hindered by the time needed to locate the returns. In some cases, such a large number of returns had accumulated in the error resolution area that it became difficult to locate specific returns with errors. In other cases, the returns had been physically moved to the next processing stage, which is the files area. The major reason for this was that blocks of returns, which were still out of balance with the service center control file, were sent to the error resolution area from the data transcription area before the out-of-balance conditions were resolved. Out-of-balance blocks do not appear in the ERS inventory until the out-of-balance conditions are resolved. Consequently, the error resolution section, believing the blocks had gone through the various computer checks and passed without error, forwarded these blocks of returns to the files area. Therefore, by the time the out-of-balance conditions were resolved and the returns appeared in the ERS inventory, the returns had been moved to the files area.

IRS' corrective actions

IRS statistics show that the nationwide error resolution inventory at September 27, 1985, had dropped to about 200,000 cases and had reached manageable proportions at all 10 service centers. National office officials do not anticipate backlogs in error resolution in 1986. They expect that the additional computer capacity available at each center will ensure ERS availability to work error cases. Also, procedures are being established in the centers to maintain better physical control over the returns so that the returns can be readily located.

Returns backed up in the files area

In addition to the control problems in the returns processing pipeline caused by the large out-of-balance and error resolution inventories, most service centers experienced problems controlling the returns going to final storage. These problems occurred because cycle proof listings, which are used to determine if the returns have completed processing, were late at various times at 9 of the 10 service centers in 1985. For example, a Kansas City Service Center official told us that these listings were delayed generally from 2 days to 1 week for each week from February through June 1985. An Atlanta official told us that listings were 2 to 3 days late for each week of the filing season through June 1985. According to officials at the nine centers that had the problem, the listings were late because of either (1) computer problems (2) low priority given to producing the report, or (3) printing and distribution problems.

Delays in receipt of the cycle proof listings made it difficult for the service centers to control returns in the files area. Normally, returns arriving at the files section are not shelved until they can be traced to a cycle proof listing to insure that all processing has been completed. Because the listings were late, the service centers had returns backlogged in the files area awaiting verification to a cycle proof listing. Also, returns were continually entering the files area and then being pulled out to work the unresolved out-of-balance and error correction cases that had been moved to the files area. This constant movement of returns made it difficult to keep track of the returns that should be sent to final storage when the cycle proof listings finally arrived. As a result, some returns that had not completed processing were inadvertently moved to final storage. For example, both Fresno and Kansas City have reported finding unprocessed blocks of returns shelved in files. Fresno found 18 unprocessed blocks; Kansas City found 16.

IRS' corrective actions

According to a December 1985 memorandum from IRS' National Office to all service centers, a cycle proof listing will be automatically generated each week. The National Office pointed out in the memorandum that:

> "To ensure that unprocessed blocks are not put in the Files, it is mandatory that [service center] management meet the requirement to use the CPL [cycle proof listing] as directed . . . It is the consensus of representatives from the National Office and field that the basic CPL concept, when properly used, provides the optimal control to ensure that unprocessed blocks are not retired with processed blocks."

Also, for 1986, the National Office has directed the service centers to establish a staging area for processed returns from which documents can be pulled for all activities before sending the documents to final storage. The blocks are also supposed to be sorted in workday sequence to make them easier to locate.

Service center control file was not kept accurate and current

All service centers had problems keeping the service center control file accurate and current. That file is the primary control over documents and revenues in the service centers. It shows when the documents were put on the file and where the documents are in the service center (awaiting computer processing or in block out of balance, error, or reject status). As documents move through the service center, the control file is supposed to be updated so that the status of all documents is known.

At least monthly, the service center is supposed to conduct a review to identify blocks of documents that have had no activity for a specified period of time. Through this analysis, blocks that require immediate attention are supposed to be located, worked, and cleared. However, this year, because of other document control problems, the centers did not have time to work the aged cases on the control file. As a result, the inventory of aged control file cases grew to over 21 million documents by May 31, 1985.

IRS' corrective action

IRS' Internal Audit analyzed the control file and found a large number of aged items. Because of this, the National Office, in June, had each service center establish a special task force to resolve aged items. The centers were directed to resolve the aged control file inventory as of May 31, 1985, which at that time consisted of 21,255,666 items, and to keep current on all subsequent control file items. As of October 28, 1985, the service centers had reduced the May 31 aged inventory to 603,235 items.

Unpostable inventories increased in 1985

This year, all the service centers experienced large increases in unpostable cases compared with last year. For example, from January through October 1985, the centers had received about 15.3 million unpostable cases, which was about 4.5 million more than they had received over the comparable period in 1984. Several factors contributed to the increase in unpostable receipts.

First, unpostable cases were created this year for conditions that in prior years had been handled by other service center functions and had not been included in the unpostable inventory. For example, this year's unpostable inventory included cases where a tax return could not post to the master file because another return had already posted. Last year, these duplicate return cases were handled by the Adjustments/Correspondence Branch and were not part of the unpostable inventory. Similarly, cases involving returns that would not post to the master file because the remittance that was processed along with the return had not yet posted were handled by the Notice Review Unit in 1984, whereas this year they were part of the unpostable inventory. These two unpostable conditions added about 60,000 cases to Brookhaven's unpostable inventory. An Atlanta Service Center official estimated that these new unpostable conditions accounted for about 12 percent of its total unpostable inventory in 1985.

Data transcription errors also caused unpostable receipts to increase this year. For example, this year, unlike prior years, entity data (names and social security numbers) on tax returns were not key verified. Errors in the entity data accounted for a substantial portion of the unpostable inventory in several service centers. For example, the Kansas City Service Center estimated that about 39 percent of its unpostable receipts were due to problems with entity data.

Nine service centers also experienced problems resolving unpostable conditions because of computer unavailability. Under the Generalized Unpostable Framework (GUF) system, which was implemented in 1985 and is the on-line system used to work unpostable cases, tax examiners in the unpostable unit are more dependent on computer availability than they were in prior years. The tax examiners need to use GUF to correct unpostable conditions and to close the cases.

The nine service centers cited GUF availability as a problem. The service centers did not keep records on the amount of time GUF was unavailable. However, we did obtain estimates on GUF unavailability from three centers: (1) a Brookhaven official estimated GUF was not available about 46 percent of the time during the January to May period, (2) an Atlanta official estimated that GUF was unavailable about 15 to 20 percent during peak periods, and (3) a Kansas City official said that the worst period for the service center was March through May when GUF was down about 172 hours.

IRS' corrective action

To reduce the number of unpostable cases caused by errors in transcribing entity data, IRS, in August, required the service centers to key verify that data. In 1986 IRS plans to limit key verification to those data transcribers who do not maintain an acceptable quality level. Each service center is to determine its own acceptable quality level.

Because they will have increased computer capacity in 1986, the service centers do not expect GUF availability to be a problem next year.

Correspondence inventories increased

Correspondence inventories at the 10 service centers as of the end of October 1985 had increased by about 38 percent compared to a year ago (1.3 million versus 1 million).

A major reason given by officials at 8 of the 10 service centers for the high inventory levels was the unavailability of the Integrated Data Retrieval System (IDRS) to work correspondence cases. IDRS is a realtime system that contains information on active taxpayer accounts. It is used to research accounts in response to taxpayer inquiries, enter adjustments to taxpayer accounts, and generate notices and letters to taxpayers. When IDRS is not available, tax examiners cannot do the research needed to work and close correspondence cases. Although the service centers did not keep formal records on the amount of time IDRS was unavailable to work correspondence cases, some estimates were made. For example, a Kansas City official estimated that from January 17 through April 30, IDRS was down about 120 hours, during 27 of the 74 scheduled workdays. An Ogden official said that IDRS was available an average of 9 hours a day from October 1984 through May 1985--it was scheduled to be available 13 hours a day during this period. A Brookhaven official said that from January through June 1985, IDRS was never available on Mondays, and was unavailable periodically on Tuesdays through Fridays.

Officials in five service centers said another reason for the high correspondence inventories was the requirement that IRS respond to a taxpayer inquiry within 7 days of receiving the inquiry if it could not be resolved within 14 days. According to the officials, the requirement created additional work because if the case could not be resolved within 14 days the service center would have to send the taxpayer two letters--one acknowledging receipt of the taxpayer inquiry and another explaining how the inquiry was resolved. Also, staff were expending more time answering initial taxpayer inquiries and resolving the easier correspondence cases. Because staff did not have enough time to work the more difficult cases, these cases remained in the correspondence inventory. As of the end of October 1985, IRS considered 73 percent of its correspondence cases to be overaged compared to 36 percent at the end of October 1984.

IRS' corrective actions

To reduce current and future taxpayer correspondence inventory levels, IRS took steps in August 1985 to reduce the number of tax return adjustments that result in taxpayer correspondence. These changes included raising various tolerances such as those for math verifying taxpayers' calculations, issuing math error notices, and assessing Federal Tax Deposit and estimated tax penalties. IRS estimated that raising these tolerance levels would reduce correspondence inventories by about 1.9 million cases annually.

In addition, IRS temporarily revised its time frames for responding to taxpayer inquiries. Those revisions are due to expire December 31, 1985. During the 1985 filing season, service centers were required to close a case within 14 days or, if unable to do so, send the taxpayer a letter, within 7 days, acknowledging receipt of the taxpayer's inquiry. In September

1985, the National Office authorized the service centers to extend these time frames to 30 days and 21 days, respectively. Two service centers (Atlanta and Fresno) adopted the extended time frames.

Newspaper accounts have alleged, on more than one occasion, that another step IRS took to minimize its workload, including its correspondence inventories, was to shred or otherwise inappropriately destroy or discard tax returns and/or taxpayer correspondence. We discussed two such allegations in a report to the Subcommittee on September 30, 1985, dealing with the Austin and Fresno Service Centers (GAO/GGD-85-89). We also discussed various incidents at the Philadelphia Service Center in a fact sheet that we prepared at the request of the Senate Committee on Finance and Senators Heinz and Roth (GAO/GGD-86-25FS). Pertinent excerpts from those two documents are included in this statement as attachments II and III. Our work indicated that there were times when certain employees acted inappropriately, but it provided no evidence of a systematic effort within IRS to wrongfully destroy returns and/or correspondence.

Problems affected various compliance activities

Computer-related and other processing problems experienced by the service centers in 1985 affected various compliance activities. According to service center officials, these problems resulted in

- --prematurely releasing refunds to taxpayers before IRS could investigate the validity of the refunds under its Questionable Refund Program and its Abusive Tax Shelter Detection Team program,
- --delaying the issuance of underreporter notices and delinquency notices, and
- --requiring employees to manually generate reports to manage the examination programs.

Questionable Refund Program

IRS' Questionable Refund Program identifies potentially fraudulent refunds, such as those sought by persons filing more than one return for a particular tax year, and attempts to stop those refunds before they are issued. All service centers experienced difficulties in obtaining computer tapes or listings in time to stop many questionable refunds. Service center officials generally attributed these difficulties to insufficient computer capacity, IDRS downtime, and the low priority afforded this program.

Delays in receiving computer products were aggravated by problems in physically locating tax returns containing the questionable refunds. Three service centers attributed this problem to inadequate location data on the computer products. Three other centers said the returns simply were not at the designated locations.

According to a National Office official, during the 9 months ended September 30, 1985, the service centers were unable to stop more than $1 million in refunds on over 500 of the almost 2,900 returns IRS identified as having questionable refunds.

Abusive Tax Shelter Detection Team program

IRS established Abusive Tax Shelter Detection Teams in 1985 to identify tax returns of investors in potentially abusive tax shelters and to suspend refunds from being issued until the questionable shelters could be reviewed. However, officials at 4 of the 10 service centers said that untimely receipt of computer-generated abusive tax shelter listings or difficulties in locating taxpayers' returns within the service centers prevented them from delaying all refunds in potentially abusive tax shelters.

For example, officials at Fresno and Austin said they had problems delaying refunds on tax returns involving potentially abusive tax shelters because refund data were not updated timely by the Computer Branch due to processing delays. Atlanta and Kansas City officials said they were unable to stop some refunds because computer listings that identified tax returns with potentially abusive tax shelters were received late--up to 21 days late at Kansas City. Atlanta officials also said their problem of stopping refunds was aggravated by not being able to find the applicable taxpayer returns in the service center when they were needed. The service centers did not have data on the number or amount of refunds not suspended due to these problems.

Underreporter program

Computer-related problems at 8 of the 10 service centers caused delays in the issuance of underreporter notices to taxpayers. These notices are the result of matching income reported by taxpayers on their tax returns to the income reported by third parties on information returns, such as interest income reported by a bank. The notices are usually processed weekly, but this year issuance was sometimes delayed 2 to 5 weeks primarily because higher priority was given to processing tax returns than to generating the notices. Instead of a continuous and smooth flow, notices were often issued in large batches. For example, the Brookhaven Service Center twice issued about 50,000 notices in a week, compared to its weekly average of 25,000. A large batch of issuances meant, in turn, that the service centers would receive the taxpayers' responses in large batches, making it difficult for them to process those responses timely.

Collection notices

Because of the problems IRS experienced during 1985 processing returns and payments, some tax return information did not get posted to taxpayers' master file records in time to prevent the computer from generating return delinquency and balance due notices.

Officials at 7 of the 10 service centers said that they delayed mailings of delinquency notices so that they could be screened to determine if the returns had posted to the master file after the notices were generated. For example, about 114,700 delinquency notices scheduled to be sent out from Fresno in April 1985 were delayed until mid-May to allow additional time to research and correct any errors. All but 8,000 of the delinquency notices were delayed a second time, in mid-May, and were reprinted and mailed during the July-September quarter.

The service centers also were concerned that some balance due notices may have been generated before the payments posted to the master file and undertook special procedures in response to this problem. For example, the Brookhaven Service Center began reviewing balance due notices in January 1985. From January to October 1985, the service center reviewed about 792,000 notices; about 147,000, or 19 percent, of the notices were found to be erroneous and were stopped.

Examination program management

All service centers experienced some problems with management reports generated by the Audit Information Management System (AIMS). The service center's Examination Branch uses the reports from this system to help it manage its workloads. These reports, which contain information on the status of examination cases, examination accomplishments, and resources usage, were not produced timely, or in some cases accurately. As a result, additional resources were used to manually generate management data. For example, Cincinnati officials said they spent at least 3 staff years maintaining manual controls on their management reports. Examination Branch staff had to manually track closed cases and check each case against the AIMS report to assure accuracy of the report.

Another common problem experienced by the Examination Branches was that AIMS would not accept taxpayer assessments made within 90 days of the statute expiration date. As a result, these assessments had to be made manually. For example, Brookhaven officials said they spent 1,400 hours manually processing about 10,000 assessments in 1985. Memphis officials said they manually processed between 5,000 and 6,000 assessments in 1985. Fresno officials estimated that they processed between 4,000 and 5,000 assessments manually.

IRS' corrective actions

The problems experienced by the compliance activities this year were due to delays in processing tax returns and payments and in generating computer reports and listings. Because the service centers expect to be able to efficiently and effectively process and control all tax documents in 1986, they do not expect to encounter similar problems next year.

Quality assurance function not effective

All 10 service centers experienced difficulties performing quality assurance reviews of the DIS and ERS functions. In addition, the Notice Review Units at five centers had problems reviewing taxpayer notices in a timely manner. Also, 5 of the 10 service centers were affected by late receipt of quality assurance reports. The above problems may have contributed to the centers issuing erroneous math error notices.

ERS

Erroneous math error notices were issued, in part, because quality reviewers were unable to comprehensively review work done on ERS. Returns that fail the computer's math and validity checks are reviewed by tax examiners in the error correction unit to determine whether the taxpayer made a math error and should be sent a notice. Quality review of the work done on ERS, which is used to correct computer-identified errors, was based on a computer-selected sample of tax examiners' work. However, the sample selection criteria skewed the sample toward the easier work done by tax examiners. For example, if a tax examiner worked errors on 1040-EZ returns and 1040 Business and Farm returns on the same day, the quality assurance sample would most likely come from the less complicated 1040-EZ returns. This skewing of quality assurance efforts toward less complicated returns not only made it hard for IRS to get a true indication of quality but also reduced the review of the more complicated returns that are more likely to result in math error notices. Quality review was further hampered because the computer-generated printout used by quality reviewers to determine the corrections tax examiners made to tax returns were difficult to read. In addition, quality reviewers had a difficult time locating tax returns needed to perform their reviews because the returns had been moved to the filing area and were commingled with returns that had completed processing.

DIS

Many erroneous math error notices are initially caused by data transcription errors. Therefore, it is important that an effective quality review be done on the work done by DIS operators in transcribing return information. This year, however, quality reviewers encountered problems reviewing that work.

Similar to ERS, quality review samples for DIS operators are computer generated and records of DIS operators work are printed out for use by quality review staff. The quality reviewers use both IDRS and the original entry documents to verify the DIS entries. Delays in printing DIS quality review samples and difficulties locating documents in the service centers contributed to delaying and degrading the quality reviews. These problems not only delayed quality feedback to both data transcribers and supervisors but also increased the workload of the error correction units.

Notice review unit

A service center's Notice Review Unit reviews, on a sample basis, math error notices before they are mailed to taxpayers. Notice review is the last opportunity the centers have to prevent issuing erroneous math error notices. According to officials in five service centers, the Notice Review Units encountered difficulties reviewing notices this year because the units consistently received notices a day later this year than in prior years. Last year the units received the notices on Monday; this year they received them on Tuesday. The notices show the following Monday as the assessment date. This means that the notices need to be sent out no later than Friday. Thus, the centers had one less day during the week to review the notices before they had to be sent out. Officials at 5 of the 10 service centers also said they had difficulties locating the tax returns needed to conduct the reviews.

Quality assurance reports

Five of the 10 service centers stated that, because the computer was needed to process tax returns and other high priority items, quality review reports were often not timely. This lack of timeliness affected service center functions because managers could not easily isolate problem areas and take corrective action. The quality assurance staff manually produced reports when they did not have computer-generated reports available, but that was more time consuming.

IRS' corrective actions

For 1986, IRS plans to improve its overall quality review efforts by increasing the quality review staffing from 4 percent to 5 percent of total direct staff hours worked, resources permitting. According to National Office officials, IRS has modified the sample selection criterion on ERS to allow quality reviewers to examine all types of returns corrected by tax examiners and has made the quality review printout easier to read. National Office officials report that DIS quality review has been changed to allow quality reviewers to do their review on-line, which should eliminate a need for the computer-generated quality review sample record. According to IRS, however, that change is dependent on the availability of DIS terminals, which could become a problem during peak processing periods. To further prevent erroneous math error notices from being issued, National Office officials said the centers will increase the number of math error notices reviewed. National Office officials also said the criteria used to select notices for review is being changed to better ensure that notices with a high potential for error will be reviewed.

Problems hiring and retaining staff

Officials at several service centers said that they had problems attracting new employees and retaining experienced employees. They cited various reasons, including

--lack of part-time work and flexible work hours,

--job stress due to performance standards,

--the short term nature of seasonal employment,

--entry level salaries that were often lower than those offered by local fast food restaurants, and

--limited public transportation.

Besides tax return processing, other service center functions were affected by the shortage of experienced staff. For example:

--Between December 1984 and March 1985, Sperry Corporation performed computer system audits at each of IRS' service centers and found that 8 of the 10 centers did not have sufficient program analysts in their computer branches to provide adequate coverage during the filing season. Program analysts are responsible for helping to assure that computers operate efficiently and that computer programs generate the desired products on a timely basis.

--Officials at all of the service centers said they experienced staffing problems during 1985 in the division that handles correspondence with taxpayers. Many of the problems resulted from attrition of experienced personnel who were looking for either higher graded or more permanent positions, and were aggravated by difficulties in hiring and training replacements.

--Four centers experienced staff reductions in the Examination Branch, which is responsible for reviewing tax returns for audit potential and handling those audit issues that can be resolved by correspondence with the taxpayer. According to service center officials, those staff reductions sometimes resulted in delayed assessments or the potential for lost revenues. Fresno and Memphis, for example, curtailed their non-filer examination programs. Under this program, taxes are assessed on those identified non-filers who do not file their returns after being contacted by IRS. Curtailment of the program in Fresno resulted in delayed assessments of taxes and penalties of about $75 million until 1986, at which time the service center plans to work the 1985 cases. A Memphis official said the center does not plan to work its 1985 cases in subsequent years. Memphis officials estimated that potential revenues of about $16 million could be lost if those cases are not worked.

IRS' corrective actions

At the time of our inquiries, individual service centers and IRS' national office were considering various strategies to overcome staff recruitment and retention problems. We do not know to what extent those strategies have been or will be implemented.

Andover officials told us, for example, that they expect their staffing problems to worsen in 1986 because of attrition and an expected 25 percent increase in workload from new work being shifted to the service center. To keep employees from leaving, the center is establishing a child care facility and an employee health improvement program and is considering filling some part-time positions on a permanent basis.

IRS' National Office has indicated that to help overcome staff problems, it is considering, among other things,

--use of "off-site" facilities where feasible and practical;

--in-depth exit interviews and collection of a data base of reasons/conditions for leaving;

--training and development of in-house recruitment planning expertise, or contracting with professional consultants in recruitment and retention planning; and

--use of multifunctional personnel.

Training problems

As mentioned earlier, IRS introduced several new input systems during 1985. Those new systems incorporated technology and functions not available previously to the service centers. During our review, we identified certain problems that arose due to, or at least were exacerbated by, staff unfamiliarity with the new input systems. As we discussed earlier, for example, each of the service centers experienced problems this year with data not transferring from the DIS minicomputer to the master computer. A significant factor contributing to that problem was the fact that some operators and managers were not fully trained on DIS and thus misused the mode key on the DIS terminal keyboard.

Such problems indicate that service center staff were not trained as well as might have been expected prior to the 1985 processing season. In that regard, service center officials reported that they encountered various types of employee training problems during 1985, including (1) late receipt of training materials; (2) late presentation of training due to the late receipt of materials, the lack of adequate training facilities to handle the large number of new hires to be trained, and the unavailability of computer time for training purposes; (3) insufficient and inadequately prepared instructors; and (4) insufficient training of managers.

Processing Division officials at four centers told us that the untimely receipt of training materials, which they considered inadequate in some cases, caused problems in processing tax return data. For example, Austin and Atlanta officials said that inadequate training and training materials caused problems with the system used for inputting taxpayer remittance data into the computer. As a result, some payments did not get processed into the computer, while in other cases remittance data were not transcribed in the proper sequence.

IRS' corrective actions

IRS' National Office and individual service centers have developed new training materials and classes to address the problems identified in 1985. The National Office has established a system to monitor the processing of manuals and training materials to the service centers so as to assure timely delivery. Furthermore, the National Office has issued revised instructor guides to better prepare instructors for their teaching duties.

A new training curriculum, combining on-the-job training with formalized courses, has been developed for service center personnel working with the computers. That curriculum includes training for

--all service center IDRS terminal operators in standard terminal operations and trouble-shooting procedures;

--all service center managers on the relationships between automated processing systems and the impact of those systems on center operations;

--all service center first-line managers in workload management and controls and in early problem identification and resolution; and

--all Computer Branch managers, programmers, operators, analysts, and other employees on the concepts and system applications needed to better perform their jobs.

In December 1985, we contacted each of the service centers and were told that delivery of training materials, training of instructors, and employee training were on schedule.

WHAT WILL HAPPEN IN 1986?

IRS does not anticipate major processing problems in 1986. IRS' belief is based on the actions it has taken, is taking, and plans to take to counter the problems it had in 1985. These actions include

- --increasing the computer capacity at its 10 service centers by adding a total of 20 central processing units and related peripheral equipment;
- --increasing the efficiency of its computer programs, including reducing the time needed to process its weekend workload;
- --increasing its training efforts for service center staff, particularly in the computer and processing areas;
- --budgeting more time for quality assurance functions and improving some of its quality review procedures; and
- --adding more returns processing controls, both manual and automated.

Another factor that should help IRS is the fact that Internal Audit plans to devote considerable resources to service center operations next year, which should help management more quickly identify problems and design solutions. Considering that IRS has had a year's experience with its new systems, we believe that those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985.

We do, however, have some concerns about (1) certain factors that could cause problems during the 1986 processing season; (2) certain matters that may not adversely affect IRS' ability to process returns but that could, we believe, adversely affect the tax administration system; and (3) issues that go beyond next year.

Concerns about the 1986 processing season

Despite the prospects for a smoother 1986 processing season, five unknowns cause us some concern. These relate to (1) whether the service centers will be able to reduce their correspondence and unpostable inventories to manageable levels before January 1, 1986; (2) whether IRS strategies to alleviate staffing problems will be effective; (3) whether sufficient controls have been implemented to insure that computer tapes containing tax return and payment data are processed timely; (4) whether peripheral computer equipment will be delivered in a timely manner; and (5) whether the service centers' front-end processors will be able to process IRS' realtime workload.

Inventory levels

A major concern with respect to 1986 is whether the service centers will be able to reduce their correspondence and unpostable inventories to manageable levels by the end of this year. As of October 24, 1985, Cincinnati was the only service center that had reduced both those inventories to levels approximating what IRS considers manageable.

IRS considers a correspondence inventory manageable when no cases are uncontrolled beyond 14 days after IRS received the correspondence and no more than 20 percent of the controlled cases are 45 days old or older. As the tables in attachment IV show, the correspondence inventories at each of the service centers, except Cincinnati, exceeded the 20 percent criterion as of the end of October. At four of those centers (Atlanta, Brookhaven, Memphis, and Philadelphia) the number of controlled correspondence cases older than 45 days was in excess of 80 percent.

IRS considers an unpostable inventory manageable if no more than 20 percent of the cases has been in the inventory anywhere from 3 to 10 weeks, depending on the unpostable condition involved. As of the end of October 1985, only three service centers (Cincinnati, Ogden, and Andover) had unpostable inventories that included less than 30 percent overage cases.

If the service centers cannot get their correspondence and unpostable inventories down to a manageable level by the beginning of 1986, taxpayers could again experience delays in getting their inquiries answered and their transactions posted to the master file.

Staffing

IRS' ability to hire and retain service center staff, especially in the returns processing area, is not an issue that first arose in 1985. The conditions that service center officials cited, such as low pay and undesirable working conditions, existed before 1985 and will continue, to some degree, in 1986. IRS has developed certain strategies that it hopes will help alleviate those problems, but there is no way of knowing, yet, how successful those strategies will be.

Another factor that contributes to our uncertainty about whether IRS will have adequate staffing in all locations is IRS' decision to redistribute service center workload effective

January 1, 1986. As shown in the following table, that redistribution involves six service centers:

Realigned District Office	Losing Service Center	Gaining Service Center
Sacramento	Fresno	Ogden
St. Paul	Ogden	Andover
Louisville	Memphis	Cincinnati
Parkersburg	Memphis	Cincinnati
Little Rock	Austin	Memphis

What remains to be seen is whether the gaining service centers can effectively staff the increased workload. Data obtained from IRS indicates that the Cincinnati and Andover Service Centers would seem the most vulnerable. The data indicates that the returns processing functions in both those centers will experience a workload increase in excess of 20 percent as a result of the redistribution. Such an increase could cause problems if the service centers are unable to obtain the necessary staff to handle that work. Also, the centers could have problems trying to train the additional hires needed to handle the increased workload.

Controls over computer tapes

As we noted earlier, one of the difficulties IRS experienced this year involved the untimely processing of computer tapes containing tax return and payment data. We had discussed this problem, as it related to the Philadelphia Service Center, in an April 24, 1985, document addressed to the Chairman of the Subcommittee on Oversight. Unless appropriate management controls have been implemented, IRS cannot be assured that this problem will not occur again in 1986. IRS' Internal Audit has been conducting a nationally coordinated review of management controls in the service centers' computer branches and, we understand, will be issuing a report shortly. Because of Internal Audit's involvement and our own time constraints, we did not assess computer branch controls.

Peripheral computer equipment

IRS has upgraded the computer capacity at all 10 service centers by adding a total of 20 central processing units to the 1985 complement of 48 central processing units. The central processing units have all been delivered and site preparation has been completed at the service centers. However, delivery of the peripheral equipment--the disk controllers and disk drives needed to fully use the computers' capacity--will not be completed at the beginning of the filing season. By January, 38 of the 52 disk controllers and 100 of the 176 disk drives IRS has ordered for the new processors will be installed. The remaining 14 controllers and 76 disk drives are scheduled to be delivered in March 1986. In December, IRS officials told us that the equipment scheduled for delivery in March is not needed for returns processing in 1986 and its delivery may be delayed.

As discussed before, the four largest service centers were unable to use all of their central processing units early in 1985 due to a late delivery of peripheral equipment--one of the factors that affected their performance. This could be a factor in 1986 if the peripheral equipment associated with the most recently installed processing units is needed but not delivered on time. Also, any equipment installation during the filing season could have a disruptive effect on service center processing. Typically, new hardware is installed at computer centers during times that are least disruptive to production processing--nights or weekends. During the tax filing season, there is no least disruptive time.

Accordingly, IRS should firm up, as soon as possible, its decision about the need for the equipment to be delivered in March so that it can take steps to either (1) ensure that the equipment is delivered on time or (2) defer delivery until after the filing season.

Front-end processors

We are concerned whether the front-end processors to the main Univac computers at each service center will have enough capacity and reliability to process IRS' realtime workload. Front-end processors are the computers through which all on-line inquiries via computer terminals must pass to get access to key IRS data bases on IRS' main Univac computers. The data bases are used by various service center functions such as those responsible for responding to taxpayer inquiries, processing refunds and adjustments to taxpayers accounts, examining taxpayer returns, collecting taxes, and investigating tax crimes. Each service center has one front-end processor. If that unit fails, access to the main computers is not possible until the unit is repaired. To illustrate that this situation can occur, an IRS National Office official told us that the front-end processor at the Atlanta Service Center was down for about 30 hours just recently and that Sperry Corporation flew in a replacement.

An additional concern involves the potential for an increase in the workload to be processed by the "front-end." Considering the current backlog of correspondence and IRS' stated intent to emphasize taxpayer service for the coming year, the capacity of the front-end processors may become a problem.

The increased workload could lengthen computer terminal response time and further increase IRS' backlogs.

As a solution to these problems, IRS has awarded a contract to replace the front-end processors but the contract is being protested. The earliest planned installation of a new front-end processor at a service center is August 1986--after the filing season.

Concerns about the tax administration system

Among the many steps IRS took in trying to deal with the problems encountered in 1985 were two that we recommend IRS reconsider--one (changes to various tolerances) because we believe it goes too far, the other (a decision to partially key verify certain data) because we believe it does not go far enough. Our concerns here relate more to the potential impact on the tax system than to the potential impact on the 1986 processing season.

Tolerances

One of the steps IRS took in an attempt to reduce its correspondence inventories to manageable levels was to increase several of its tolerances so as to reduce the number of taxpayer accounts needing adjustment and thus the volume of taxpayer correspondence. IRS estimated, for example, that raising the tolerance for assessing the Federal Tax Deposit penalty would reduce correspondence inventories by 1.7 million cases and would save 74 staff years. Considering IRS' estimate that increasing the tolerance would also generate an annual revenue loss of $185 million, we are concerned that the disadvantages associated with the increased tolerances may outweigh the advantages. Our concern about tolerances is also fueled by a concern for taxpayer equity and those taxpayers who dutifully comply with the tax laws.

Key verification

As we discussed earlier, IRS has decided to require that entity data from tax returns be key verified only for those data transcribers who do not maintain acceptable quality levels. We understand, in talking to National Office officials, that the decision to limit key verification was predicated on the availability of resources. We recognize that IRS does not have unlimited resources. Given what is at stake, however, we think IRS should reconsider whether key verification is the most appropriate place to save resources. We believe it is vital, from a taxpayer relations standpoint, that IRS do its utmost to process tax returns accurately and timely. IRS' problems during the past processing season resulted, in part, from erroneously transcribed tax return entity data, causing returns not to post to the master file and thus delaying refunds and generating taxpayer inquiries. We think IRS is taking an unnecessary risk by limiting key verification of that data. In our opinion, a better approach would be to begin the season with 100 percent key verification of entity data and reduce that level if performance shows that original entry accuracy is within an acceptable range over a period of time.

Concerns about some longer term issues

In considering the future, it is important that we not limit our concerns to 1986. As we have discussed in this document, this year's difficulties were due, in large part, to problems related to the Service Center Replacement System. We have been reviewing the acquisition and implementation of SCRS at the Subcommittee's request and will be issuing a separate report next year. Although it is too early for us to reach conclusions on most of the issues we are pursuing, one issue we see developing--an issue that we think was crucial to successful implementation of SCRS--bears mentioning in this statement because it relates to a recurring theme. That theme is the lack of a proper focal point for managing a procurement through design and implementation.

In June 1979, for example, GAO reported on the need for IRS to better plan for and control its ADP resources (GGD-79-48). We pointed out, among other things, the need for a an appropriate focal point within the organization to exercise control over major systems during their design and implementation. In our opinion, SCRS provides indications that problems were experienced, or at least exacerbated, due to the absence of such a focal point.

IRS established a Systems Development Office to plan for, support, and initiate SCRS. Among other things, that Office was responsible for feasibility studies, conversion studies, and transition plans. The transition plans were the basic management tool for providing a method of moving from the old systems to replacement systems. The plans identified milestones and assigned responsibility for the various implementation steps. These responsibilities included equipment procurement, site preparation, applications software development, software testing, equipment installation, and personnel training.

Once the overall plans were in place and the SCRS project was started, however, the Systems Development Office was disbanded. Each functional organization identified in the transition plans was responsible for managing its part of the project. There was no controlling organizational component to oversee the overall progress of SCRS. As a result, critical management functions, such as ensuring that system sizing assumptions were adhered to, milestone dates were reasonable, and software was fully tested before it was implemented, were not effectively carried out.

Because IRS plans to replace SCRS, through another major procurement, by 1989 and then again in the early 1990s, it is important that IRS take the steps necessary to insure that those systems are brought on line more smoothly than was SCRS. Key in that regard is establishment of an appropriate focal point within the organization to manage the system design and implementation.

Another long-term concern relates to communication. As we did our work, it seemed to us as if some service centers were doing a better job of isolating problems and reacting to those problems than were others. It seemed to us also that IRS, as a whole, might have been better able to deal with this year's problems if knowledge of those problems had been more timely communicated to the appropriate levels of management within and outside a particular service center and if a particular center's solutions to those problems were better communicated to the National Office and to other centers.

As a result of this year's problems, it seems reasonable to believe that IRS employees will be more sensitive to conditions that could lead to problems in 1986 and will be quick to communicate those problems to the appropriate level of management. IRS plans to establish a 24-hour-a-day, 7-day-a-week command post at the National Office are indicative, we believe, of its recognition of the need for that kind of communication--although that command post has not yet been tested in operation.

On December 11, 1985, an IRS National Office official told us the command post would handle urgent Computer Branch problems and would be staffed by two persons per shift who would be responsible for (1) fielding calls from the service centers, (2) apprising appropriate persons of the problem, (3) following up to make sure action has been taken on the problem, and (4) disseminating information on the problem and the corrective action to other service centers. We were told that the command post should be operational by the second or third week in January 1986.

The success of the command post concept as well as other IRS actions will depend on (1) whether IRS' organization facilitates effective communications between and among service centers and between service centers and the National Office, (2) whether IRS' management information system provides the type of information management needs to identify problems before they get out of control and whether that information is being used effectively, and (3) whether IRS' use of productivity standards fosters the kind of competition between service centers and individual managers that might discourage them from surfacing problems and seeking solutions.

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This concludes my prepared statement. We would be pleased to respond to any questions.

SERVICE CENTER PRODUCTIVITY

Productivity is a key measure of how well an organization is performing. Productivity in a public sector organization is analogous, we believe, to the degree of profits produced in a private business. Using data obtained from IRS' management information system, we measured productivity at the IRS service centers in terms of the volume of work produced (e.g., tax returns processed) as compared to the staff hours used to do that work.

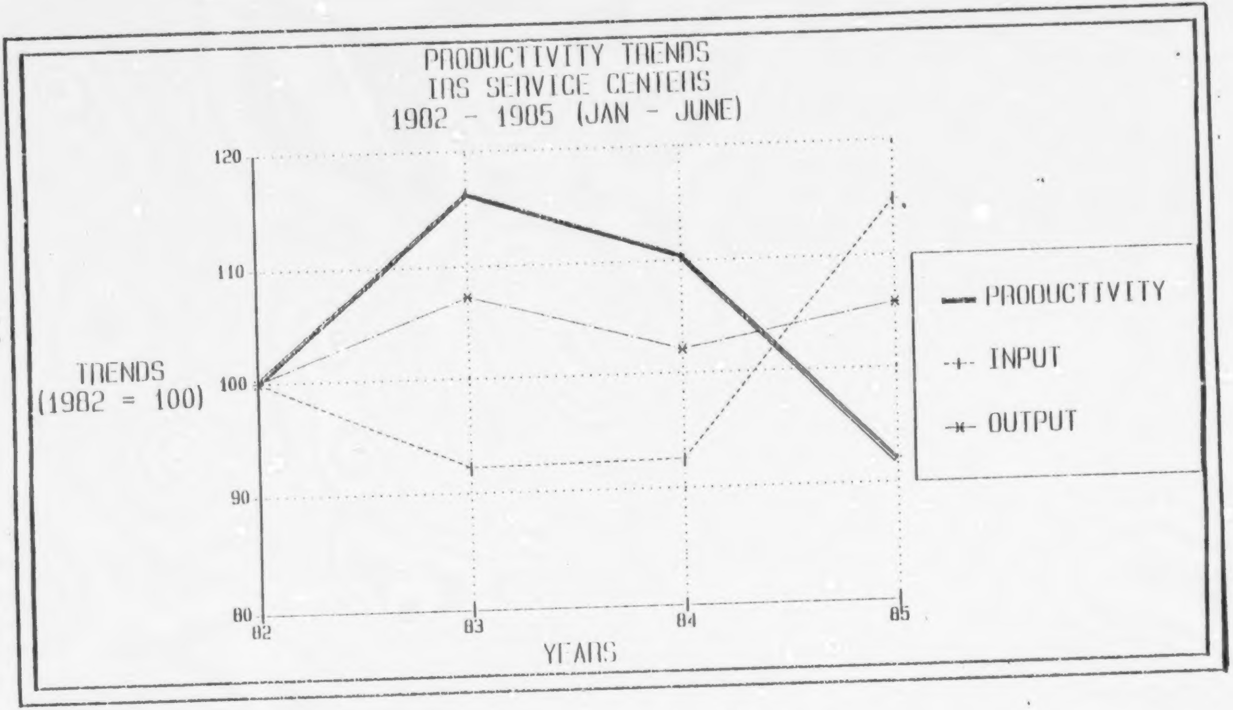
As shown in the following table and depicted in the chart on the next page, service center productivity during the January to June filing season increased between 1982 and 1984 but then decreased in 1985.

January to June Productivity Trends

	Input	Output	Productivity
1982 (base)	100.0	100.0	100.0
1983	92.2	107.2	116.3
1984	92.5	102.1	110.4
1985	114.9	105.8	92.1

Source: IRS Work Planning and Control System.

From 1982 through 1984, service center productivity increased 10 percent because work completed (output) increased while the staff hours to complete that work (input) decreased. In 1985, however, workload increased slightly, but the staff hours to complete that work increased about 24 percent over 1984. The result: a significant downturn in productivity.


PRODUCTIVITY TRENDS
IRS SERVICE CENTERS
1982 - 1985 (JAN - JUNE)

The staff cost of that productivity decline is significant. If productivity had remained constant between 1984 and 1985 rather than going down, the staff hours required to do the work in 1985 would have been 2.7 million hours less than was actually used. Using IRS data on the average cost of a service center staff hour, the cost of those staff hours is about $24.7 million. If overhead is added to those staff hours, the cost increases to about $38.6 million.

We also estimated annual trends for the 4 years. Because 1985 was not complete at the time of our review, we estimated input and output for the last half of 1985. The results were similar to the January to June trends. Productivity increased regularly through 1984, but declined about 18 percentage points in 1985. We estimate this decline cost the service centers 4.4 million staff hours at a direct cost of almost $41 million. If overhead is included, our estimated cost increases to almost $64 million.

Productivity of major functions

Major service center functions where bottlenecks occurred during the 1985 filing season showed similar productivity declines. For example, the returns processing functions, consisting of Receipt and Control, Code and Edit, and Data Conversion, produced the following January to June productivity trends:

Pipeline Productivity (January to June)

	Input	Output	Productivity
1982 (base)	100.0	100.0	100.0
1983	85.5	92.1	107.7
1984	81.7	91.4	111.9
1985	101.6	92.4	90.9

Although productivity for the processing functions increased significantly through 1984, it took a significant drop during the 1985 filing period. While output increased slightly, the staff hours used to produce that work increased about 24 percent. We estimate the cost of the additional staff hours at about $6.4 million for the direct time and about $10 million including overhead.

We also reviewed the productivity of those functions responsible for controlling taxpayer correspondence. Because the workload for these functions is more year-round than seasonal, we reviewed these productivity trends on an annual basis. Productivity increased from 1982 through 1984, then declined about 28 percentage points in 1985 because staff years to handle taxpayer inquiries increased about 29 percent while work completed declined minimally. The estimated cost of the additional direct staff hours was about $6.8 million.

THE HANDLING OF TAXPAYER CORRESPONDENCE AT THE FRESNO AND AUSTIN SERVICE CENTERS[1]

Newspaper accounts alleged that employees in both the Fresno and Austin Service Centers had inappropriately destroyed taxpayer correspondence. While doing our work at the two centers, we examined into the basis for the allegations. The following information was obtained from (1) interviews with service center officials, (2) reviews of service center correspondence processing procedures, and (3) examinations of various IRS correspondence relating to the issue.

FRESNO SERVICE CENTER

Newspaper accounts alleged that IRS employees at the Fresno Service Center were instructed by their supervisors to destroy between 50,000 and 63,000 letters received from business taxpayers concerning their balance due notices. The allegation, made by the National Treasury Employees Union, was that the taxpayer correspondence was destroyed without thoroughly researching the cases in order to reduce a rising correspondence backlog and thereby create an appearance of increased productivity.

According to Fresno's officials, from about December 5, 1984, to February 15, 1985, the service center modified its correspondence processing procedures by limiting the amount of research that had to be performed on some cases within a specific group of about 27,000 balance due inquiries from business taxpayers. The modified procedures also eliminated the requirement that tax examiners send letters to taxpayers informing them that their inquiries had been resolved. As a result of the modified correspondence procedures, some taxpayers may have been subjected to subsequent collection action because IRS assumed that the taxpayers' accounts were settled when they were not. Also, some taxpayers would not have received letters from IRS explaining that their inquiries had been resolved.

Service center management said that they modified the correspondence processing procedures to help reduce growing correspondence inventories that were caused, for the most part, by the lack of sufficient computer availability to work and close the correspondence cases. According to Fresno officials, the modified procedures did not result in the premature destruction of taxpayer correspondence. Rather, they said that the taxpayer correspondence was destroyed after the cases were closed and quality-reviewed, which is in accordance with IRS procedures.

IRS Procedures For Processing Taxpayer Correspondence

The following summarizes IRS' procedures for (1) researching taxpayer correspondence, (2) informing taxpayers of how their cases were resolved, and (3) destroying taxpayer correspondence.

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[1] This is an excerpt from a GAO report on IRS' Austin and Fresno Service Centers (GAO/GGD-85-89)

Research procedures

When processing taxpayers' inquiries on balance due accounts, the following research actions are required.

1. The taxpayer inquiry is analyzed to determine what action is required to resolve the inquiry.

2. IDRS is checked to determine the status of the taxpayer's account and whether a payment had posted to the account after the balance due notice in question was issued. If IDRS shows that the payment has posted to the taxpayer's account, the case can be closed.

3. If there is not enough information on IDRS to close the case, a master file transcript of the taxpayer's account is requested. If the transcript shows that the payment in question has been resolved, the case can be closed. If not, more research must be done, such as reviewing the taxpayer's tax return.

Procedures for responding to taxpayers

When taxpayers' balance due inquiries are resolved, the taxpayers should receive either (1) a computer-generated notice which tells what action was taken to resolve the balance due condition or (2) a personalized letter from the tax examiner who handled the case explaining that the issue in question has been resolved.

A personalized letter is sent to a taxpayer when the action that resolves the taxpayer inquiry will not automatically cause a computer-generated notice to be issued to the taxpayer. For example, at times a taxpayer's tax payment does not post to the master file until after the taxpayer receives a balance due notice. When the payment does post to the master file, the computer will automatically clear the balance due condition. However, the computer will not generate a notice informing the taxpayer that the balance due condition was resolved--the tax examiner handling the taxpayer inquiry must generate the letter.

The computer will automatically generate a notice to the taxpayer when it takes an overpayment from one of the taxpayer's tax modules and applies it to another module where there is an underpayment. For example, if a taxpayer had overpaid the Federal Unemployment Tax Act (FUTA) tax but still owed tax on the Form 941 (Employer's Quarterly Federal Tax Return), the computer would automatically transfer the FUTA overpayment to the underpaid 941 account. The computer should also automatically issue the taxpayer a notice explaining this transaction. In this case, the tax examiner is not required to send the taxpayer a personalized letter.

Procedures for destroying taxpayer correspondence

After a tax examiner resolves the taxpayer's inquiry, the documents associated with the case, such as the taxpayer's written inquiry and the copy of the taxpayer's master file transcript, are coded "D" (for destroy) by the tax examiner and forwarded to the quality review function. The only documents that should not be coded for destruction are those that show that the tax examiner adjusted the taxpayer's account. For example, if a taxpayer requested an abatement of the delinquency penalty for reasonable cause and the tax examiner agreed, the document showing the abatement action should not be coded for destruction. All case documents will be coded for destruction in those cases where the tax examiner did not have to adjust the taxpayer's account. For example, if a taxpayer inquiry concerned a payment which did not post to the account until after the balance due notice was issued, the tax examiner does not have to adjust the account because the computer would have already made the adjustment. In this case, the taxpayer's inquiry and all other documents associated with the case will be destroyed.

How The Correspondence In Question Was Handled

In anticipation of converting to the new computer system in October 1984, service center management decided to build up an inventory of correspondence cases which would be worked during the conversion process. According to Fresno officials, the service center took the following action on about 27,000 balance due inquiries received in August and September 1984 from businesses.

1. The taxpayers were sent postcards acknowledging IRS' receipt of the taxpayers' inquiries.

2. A hold of 15 weeks was put on the cases to prevent the issuance of subsequent balance due notices.

3. Transcripts of the taxpayers' master file accounts were ordered.

4. The cases were then set aside to be worked during the conversion process.

The conversion process was delayed by IRS' National Office and when the new computer system was on-line it did not operate efficiently. As a result, correspondence inventories continued to grow because the amount of time the computer was available to work the cases was less than planned. In an effort to reduce the inventories and to concentrate its resources on taxpayer correspondence that appeared to have problems requiring immediate action, service center management decided to limit the amount of research done on the 27,000 cases. Before modifying the correspondence procedures, a sample of 50 balance due cases was taken to determine if the cases could be effectively closed by limiting the research. The sample results showed the following.

- —27 cases had already been resolved because the payments in question had posted to the master file. The account balances on these cases were zero so that no subsequent balance due notices would have been sent to the taxpayers.
- —22 cases had already been resolved because the payments in question had been offset by the computer transferring an overpayment from another account. These taxpayers were sent computer-generated notices explaining the transfer of funds from one account to another. Also, 19 of the 22 cases still showed a balance due amount and new balance due notices showing the corrected amount had been sent to the taxpayers.
- —1 case showed no change from the balance due notice in question.

The sample results indicated to service center management that the cases could be closed without obtaining additional master file transcripts. According to Fresno officials, the service center then used, during the period December 5, 1984, to about February 15, 1985, the following procedures for working the 27,000 cases.

1. If the account showed a zero balance or if no account existed on IDRS and the taxpayer's inquiry just concerned the one payment issue, the case was closed and the correspondence was coded "D" for destruction.
2. If the case contained more than one taxpayer issue, the case was controlled on IDRS and a master file transcript was ordered.
3. If the case still showed a balance due amount on IDRS, a hold of 26 weeks was put on the case to prevent subsequent balance due notices from being generated. The case was put aside to be worked later.
4. If the case involved the 4th balance due notice (final notice before seizure), the case was processed immediately in accordance with normal IRS correspondence processing procedures.

IRS officials did not have estimates on the number of cases that fell into each of the above four categories. However, the cases that would have been affected most by the modified procedures were those that fell into the first category.

Those cases would have been affected as follows:

--If the case was on IDRS and showed a zero balance and did not deal with an issue that would automatically generate a computer notice to the taxpayer, no personalized letter would have been sent to the taxpayer. Therefore, the taxpayer would not know that his or her inquiry had been resolved.

--If the case did not appear on IDRS and the master file transcript that IRS ordered in September 1984 did not show that the payment issue had been resolved, it was assumed that the issue was resolved when it may not have been. In this case, the balance due amount would be below the collection tolerance required to be on IDRS. The taxpayer would be subject to subsequent IRS collection action when the accrued interest on the balance due amount brought the amount over the tolerance level.

Both of these situations could have resulted in subsequent inquiries from taxpayers on the status of their accounts.

AUSTIN SERVICE CENTER

Newspaper accounts alleged that between 4,000 and 6,000 requests from businesses that IRS adjust their accounts were inappropriately destroyed at the Austin Service Center.

Service center officials told us that taxpayer correspondence was destroyed over a 3 day period in December 1984, without the knowledge and approval of service center management. A unit manager in the Adjustments/Correspondence Branch allegedly instructed one tax examiner to destroy the correspondence without having the cases quality reviewed. Service center officials said the unit manager, who has since resigned from IRS, denied that she instructed the tax examiner to destroy the correspondence.

Service center officials said that, as best as they could determine, there was no adverse affect on the taxpayers because the correspondence would have been destroyed under established operating procedures after the cases had been quality reviewed. Service center officials said they could not determine the specific taxpayers affected because, at the time the correspondence was destroyed, the service center did not have inventory control over correspondence cases. No records were maintained on the specific correspondence handled by each correspondence unit. Service center officials said that premature destruction of correspondence could not go undetected under current procedures because inventory controls for each case are established on IDRS and weekly inventory listings are available for supervisory review.

INCIDENTS INVOLVING "LOST" DOCUMENTS AT PSC[1]

One of the issues we were asked to look into by the Senate Committee on Finance and by Senators Heinz and Roth was "lost returns." In doing that, we identified, from IRS records, 9 alleged incidents of improperly discarded or destroyed documents involving the Philadelphia Service Center during the 5 years ended June 1985. This section provides information on each of those incidents.

DETAILS OF NINE ALLEGED INCIDENTS OF IMPROPERLY DISCARDED OR DESTROYED DOCUMENTS AT PSC

As indicated by the following table, IRS investigated nine incidents in which documents (generally tax returns) were found to have been or were alleged to have been improperly discarded or destroyed. Details of those incidents and the results of IRS' investigations follow.

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[1] This is an excerpt from a GAO fact sheet on IRS' Philadelphia Service Center (GAO/GGD-86-25FS)

NINE ALLEGED INCIDENTS OF "LOST" DOCUMENTS AT IRS' PHILADELPHIA SERVICE CENTER FROM JULY 1980 TO JUNE 1985

Brief Description of Alleged Incident	When did Incident Allegedly Occur?	Who Investigated Incident?	Did IRS' Investigation Substantiate Allegation?
1. Janitorial employee reported finding some tax returns and/or remittances in burn barrels.	April 1985	PSC and Regional Inspection	Yes
2. Mail clerk continually discarded taxpayers' forms and checks in wastepaper basket.	April 1985	PSC	Yes
3. Ninety-two processed tax returns were found in trash receptacles in two women's restrooms in two separate incidents.	July 1984	Regional Inspection	Yes
4. Fifty thousand tax returns were allegedly destroyed.	A few years ago	Regional Inspection	No
5. File clerk misfiled a batch of 16 processed tax returns.	April 1983	PSC	Yes
6. Tax examiner routed cases to files when they should have been worked, or closed cases without taking necessary action.	October, November 1982	PSC	Yes
7. Employee threw a folder containing various tax documents into a waste basket.	April 1982	PSC	Yes
8. An unspecified number of processed tax returns were allegedly found in a trash container.	1982	PSC	No
9. Forms requesting copies of tax returns were destroyed.	1981	Regional Inspection	Yes[a]

[a] Partially, see page 38 for details.

Janitorial employee reported finding some tax returns and/or remittances in burn barrels

As reported to the PSC Director in a May 30, 1985, memo from IRS' Internal Audit Division:[1]

> "On April 26, 1985, an employee of the General Services Administration found envelopes containing unprocessed documents and remittances in a trash barrel on the loading dock. Service center management and Inspection determined that several trash barrels contained 109 discarded envelopes from which all information had not been extracted. The 109 envelopes included: 94 remittances for $333,440; 36 individual income tax returns; 24 Forms 1040 ES (Estimated Tax for Individuals); and 49 miscellaneous documents. Of the 94 remittances, 47 were not associated with documents. The remittances ranged from $1 to $68,000."
>
> "On April 30, 1985, an Internal Auditor selected three brown envelopes from a trash barrel in the Receipt and Control area. One envelope contained a check for $2,500."
>
> "The majority of the 109 envelopes are classified as "flats" (over-sized envelopes too large to be opened by automated omnisort equipment). The other envelopes are classified as "fats" (normal size envelopes stuffed with documents and therefore too wide for omnisort equipment). The envelope discovered by Internal Audit was a normal size, dark brown envelope which had been opened by omnisort equipment and machine candled[2]."

Further, Internal Audit said:

> "Causes which contributed to remittances, tax returns and other documents not being removed from the envelopes included:
>
> --verbal instructions to rip apart flat envelopes were not followed-up by management or quality reviewed;

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[1] The Internal Audit Division is part of Regional Inspection.
[2] Candling is the process used to decide whether or not an envelope is empty by measuring the intensity of light as it is shined through the envelope.

--verbal instructions were not reinforced by written instructions;

--the special candling problem presented by omnisorted brown envelopes was either not recognized or not addressed;

--Quality Assurance Branch did not ensure that samples of discarded envelopes were included in their quality reviews and that adequate coverage was provided on the day and swing shifts;

--of the 12 Mail Processing and Extracting Unit employees processing flats at the time of the discovery, two inexperienced employees were assigned when more experienced employees were available; and

--of the 12 employees, three worked 19, 17 and 14 consecutive days and the unit supervisor and the primary shift supervisor each worked over 80 hours a week during the week of the discovery and the previous week."

On June 7, 1985, the PSC Director responded by noting the following corrective actions:

"a. Instructions have been issued to all Extraction employees to tear open all oversize envelopes to minimize items left inside.

b. Sweepers spot-check waste from flats extraction.

c. Extraction Unit managers review representative sampling from all burn barrels (including regular machine candled envelopes, ..., fats envelopes, flats envelopes, boxes and miscellaneous waste such as undeliverables) prior to removal from Extraction Room. Burn barrels are covered to preclude addition of non-reviewed waste.

d. Quality Assurance Branch reviews representative sampling from all burn barrels prior to removal from Extraction Room.

e. The Receipt & Control Branch Chief (or Division Chief/Assistant Division Chief in his absence) reviews representative sample from all burn barrels prior to removal from Extraction Room.

f. An Extraction Waste Verification Report (documenting all reviews in c. and e. above) has been established.

g. Instructions have been issued to all candling employees to tear open all color envelopes including all brown regular size envelopes.

h. National Office has been alerted with recommendations for [Internal Revenue Manual] instructions. . .

i. Written procedures are being prepared to augment all prior Receipt & Control Branch instructions for release later this month. These procedures will include periodic written alerts to the extraction and candling staffs.

j. Quality Assurance Branch will recommend changes to [Internal Revenue Manual] for inclusion of review of extraction waste."

Mail clerk continually discarded taxpayers' forms and checks in wastepaper baskets

In April 1985, an intermittent mail clerk was counseled by her supervisor "for continually disposing of taxpayers' forms and checks in the wastepaper basket. . ." In June 1985, IRS terminated that clerk's employment stating:

> "Your actions constitute a violation of Section 226.1 of the Handbook of Employee Responsibilities and Conduct, Internal Revenue Manual 0735.1, which states in part: 'Any money, property or other thing of value received by or coming into custody of an employee in connection with the discharge of duties relating to enforcement of Internal Revenue laws must be accounted for... in accord with established procedures,' and Section 226.2 which states in part: 'It is unlawful to remove or conceal, alter, mutilate, obliterate, or destroy records or documents or to remove or attempt to remove with the intent of performing any of the above actions.'"

Ninety-two processed tax returns found in trash receptacles in two women's restrooms in two separate incidents

On two occasions (July 26, 1984, and July 30, 1984) PSC supervisors reported to the Regional Inspector's Office that PSC employees had found tax returns in the women's restroom. On the first occasion, 35 Form 1040s were found in the women's restroom trash can. The second instance involved 57 tax returns (27 Form 94 s and 30 Form 1040s) found by an employee in a different women's restroom. A maintenance custodian found the documents while emptying a trash container in the first incident; a tax examiner found the tax documents in the second incident.

Internal Audit's review of master file information for the discarded returns showed that all tax returns had been processed although some returns had not been timely processed (but not because the returns were in the restroom).

As a result of its examination into these returns, Internal Audit said:

> "...our review did not identify any trends in addresses or tax preparers. Also, we did not identify any tax return that involved a service center employee.
>
> In conclusion, we were unable to determine the point at which these returns were discarded. We see no benefit or detriment to the taxpayers as a result of this situation."

Fifty thousand tax returns were allegedly destroyed

An employee at IRS, who subsequently retired, reported on March 19, 1985, a rumor that tax returns located in a hamper were destroyed by accident a "few years ago."

IRS' Inspection Service discussed this rumor with a PSC official who confirmed that a rumor of as many [illegible] 50,000 tax returns being destroyed has been circulating "for many years." Inspection Service discussions with persons who had heard the rumor confirmed there was no substance to the rumor. Inspection closed the case because no one was able to furnish any evidence to suggest that tax returns were destroyed.

File clerk misfiled a batch of 16 processed tax returns

On April 6, 1983, an employee who was refiling (refiling consists of filing documents or returns into blocks set up in the filing area) on the day shift found a batch of refiles which were misfiled in one block. The work was banded together with a volume tag of 20 still on it. However, out of this batch of 20 documents only four actually belonged where they were found. Because of this misfiling, the possibility existed that the returns would never have been found. According to the Chief of PSC's Tax Accounts Division, this could have resulted in serious problems for the taxpayers involved or it could have hindered the government in the proper collection of taxes due.

The intermittent file clerk, who was accused of intentionally misfiling 16 processed tax returns during her probationary employment period, resigned on May 10, 1983.

Tax examiner routed cases to files when they should have been worked, or closed cases without taking necessary action

On December 17, 1982, a tax examiner in the Adjustments and Correspondence Branch was notified that she had inflated her production statistics by 269 cases for the period of October 26, 1982, to November 24, 1982. PSC review of all 269 cases indicated that the employee did not answer taxpayers' letters when required or request taxpayer transcripts or tax returns when required. The examiner either had routed cases to the files when they should have been worked or had closed cases when further action was required.

The employee was removed from IRS, effective April 22, 1983, for falsifying official work records.

Employee threw a folder containing various tax documents into a waste basket

On April 26, 1982, a data transcriber was observed by her supervisor throwing a folder into a waste basket. The supervisor retrieved the folder and found that it contained various official documents such as completed taxpayer returns, schedules, W-2 Forms, and taxpayer correspondence.

The employee's action constituted a violation of Section 225.2 of IRS' Handbook of Employee Responsibilities and Conduct (Internal Revenue Manual 0735.1) which states in part: "Employees must...dispose of their work promptly and accurately." The employee was terminated July 9, 1982.

An unspecified number of processed tax returns were allegedly found in a trash container

In April 1985, the Assistant Director at PSC reported to the Mid-Atlantic Regional Commissioner an incident that allegedly happened in 1982. This report was in response to the Regional Commissioner's request "for information of any knowledge of records or returns destruction in the past few years."

The Assistant Director's report included the following incident:

> "Name of Individual - Unknown.
> Statement of Allegation - It is believed fully processed returns or documents were found in a trash container in the Files area.
> Date - 1982
> Action Taken - Again it is believed this was referred to Inspection and a full scale investigation conducted."

Internal Security (another part of Regional Inspection) had no knowledge or record of the alleged incident.

Destruction of forms requesting copies of tax returns

Information furnished on March 19, 1985, by a former PSC employee indicated that requests for copies of income tax returns were destroyed in 1981 at the service center.

Internal Security investigated the incident and found, in addition to the person making the allegation, three service center employees who recalled that IRS' own internal request forms (i.e., taxpayers were not the requesters) to obtain copies of tax returns were destroyed. The original income tax returns--which were to be photocopied--were returned to files. The request forms, in an estimated 18 boxes each of which had 175 to 200 requests, were destroyed to alleviate a backlog of tax returns requiring photocopying.

One of the employees who admitted destroying the requests identified the other two employees involved in the destruction. This employee stated she was instructed by her supervisor to "remove the request forms off the photocopy request backlog and put the request forms in the trash and place the original income tax returns in buckets to be refiled." The employee's supervisor "advised that the destruction of requests could have happened but she does not recall such an incident and further, advised if the destruction of requests did occur, it would have been a directive from higher management."

On April 22, 1985, Internal Security closed its investigation, and asked to be advised if PSC took any administrative action.

The Service Center Director, after consulting with the Personnel Branch about the current employment status of all employees possibly involved in the incident, found there was only one employee remaining at PSC. The Director, in view of this and after considering all the facts, did not believe a sustainable action could be taken against the one employee. Consequently, the case was closed without action.

SELECTED INVENTORY STATISTICS

National

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	692,471	857,844	338,114	960,359	25	66	547,561	446,433	606,334	947,155
February	779,035	728,055	325,635	740,335	15	62	956,228	680,998	820,690	1,246,098
March	1,335,284	1,244,361	475,762	775,252	15	59	1,397,305	1,580,719[a]	856,156	1,838,757[a]
April	1,206,664	1,216,147	564,007	820,575	14	56	1,205,272	1,702,943	987,140	2,227,442
May	1,448,874	1,853,764	705,528	1,124,035	16	50	1,763,469	2,709,667	1,349,869	2,805,998
June	1,554,550	1,521,243	847,165	1,387,601	18	48	1,271,990	2,383,836	1,315,895	3,202,638
July	1,226,096	1,274,164	343,903	1,657,534	26	54	809,696	1,763,032	1,150,317	3,308,819
August	1,366,667	1,523,016	916,989	1,510,368	32	66	1,005,282	1,508,165	1,158,057	2,915,820
September	1,148,249	1,214,688	865,954	1,431,757	34	70	1,042,086	1,253,421	1,006,159	2,410,014
October	1,140,616	1,019,541	968,950	1,334,279	36	73	763,028	1,230,536	859,212	1,911,009
November	1,072,897	-	932,981	-	36	-	654,216	-	745,872	-
December	874,707	-	966,913	-	61	-	688,747	-	866,710	-
Total	13,846,110	12,452,823					12,104,880	15,259,750		

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[a] Beginning in March 1985, the unpostables receipts and inventories reflect all functional areas. Before March these statistics reflected only those cases worked by the unpostables unit, the primary unit which works unpostable cases.

SELECTED INVENTORY STATISTICS

Andover Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	53,079	41,827	18,164	34,009	15	32	31,733	39,159	54,004	52,087
February	53,617	51,735	26,835	26,652	10	19	59,546	89,657	57,042	116,907
March	76,251	85,459	26,285	32,580	10	12	80,061	123,511	57,444	132,300
April	71,655	63,417	27,507	42,063	8	14	65,631	141,330	50,808	130,219
May	115,860	126,772	70,408	59,614	9	17	150,676	161,080	86,687	130,004
June	96,053	130,093	77,380	93,171	12	20	94,180	186,179	81,295	161,047
July	74,819	96,779	86,474	104,002	19	28	55,947	203,466	68,102	166,726
August	78,953	122,172	66,370	90,254	20	34	72,776	85,810	56,908	143,793
September	73,788	99,209	62,150	86,579	18	27	88,879	70,170	46,216	117,472
October	61,673	76,131	66,054	66,689	26	37	54,645	64,002	30,685	92,440
November	53,421	-	52,702	-	52	-	27,814	-	46,362	
December	45,962	-	43,805	-	30	-	40,416	-	49,478	
Total	855,131	893,594					822,304	164,364		

SELECTED INVENTORY STATISTICS

Atlanta Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	79,384	89,252	24,383	99,318	20	60	70,081	35,183	71,861	154,773
February	73,694	69,774	28,325	47,839	9	78	104,409	36,367	93,841	151,239
March	149,337	130,725	47,060	49,818	6	60	157,009	197,002	108,113	227,396
April	125,576	118,946	62,426	58,614	8	32	157,763	202,319	134,946	298,787
May	127,163	165,748	64,393	108,112	21	44	201,148	318,031	178,798	390,880
June	145,738	134,993	69,606	151,216	20	56	131,678	269,432	187,262	432,955
July	129,479	121,024	84,235	191,904	32	58	102,748	146,242	175,386	451,236
August	131,722	124,489	90,557	181,311	35	69	126,184	177,529	199,174	414,336
September	162,928	105,580	93,704	196,813	41	78	119,261	121,749	154,859	316,271
October	135,295	85,567	76,796	198,705	39	83	87,283	121,785	135,902	270,027
November	120,402	-	92,053	-	65	-	71,080	-	121,083	-
December	88,546	-	108,211	-	56	-	74,425	-	150,325	-
Total	1,469,264	1,146,098					1,402,724	1,625,639		

SELECTED INVENTORY STATISTICS

Austin Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	114,914	128,223	34,764	96,495	10	72	65,737	23,807	66,398	96,910
February	121,951	98,312	47,781	76,538	9	52	127,371	97,487	104,198	149,789
March	209,812	169,891	72,669	98,686	10	52	184,220	268,037	108,825	306,399
April	190,272	153,260	62,316	117,827	18	53	181,072	245,968	137,189	376,232
May	218,025	206,452	78,630	140,772	19	56	278,203	348,474	209,615	417,639
June	219,531	179,058	72,911	164,350	17	40	175,182	343,536	202,386	506,655
July	204,218	223,478	100,706	244,477	20	50	109,116	168,544	170,207	449,310
August	191,416	219,054	87,755	219,329	46	64	164,713	276,777	173,261	467,101
September	212,959	142,201	67,394	205,743	44	65	109,435	100,845	144,905	359,331
October	201,920	104,411	115,352	165,510	14	65	80,633	184,103	128,512	304,642
November	160,251	-	112,282	-	60	-	65,596	-	56,727	-
December	111,745	-	94,913	-	68	-	186,833	-	133,165	-
Total	2,157,014	1,624,340					1,728,111	2059,578		

SELECTED INVENTORY STATISTICS

Brookhaven Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	77,038	95,955	62.992	266,695	50	84	59,298	58,006	71,501	64,447
February	77,605	66,825	55,208	154,408	28	96	81,769	31,035	88,455	59,709
March	114,829	99,420	71,044	107,419	24	40	98,885	90,642	69,304	106,241
April	115,652	80,160	92,995	83,907	24	77	74,078	112,320	71,317	178,271
May	98,464	92,638	93,926	86,577	22	71	166,643	377,424	117,693	372,229
June	142,361	141,449	131,515	109,378	30	56	122,977	335,007	150,884	464,135
July	101,525	110,101	149,023	145,529	37	56	66,870	212,401	151,988	474,122
August	164,597	132,462	184,210	159,683	49	67	80,296	112,998	144,302	363,304
September	110,990	108,316	201,258	181,608	29	71	113,634	133,163	132,192	300,488
October	122,338	99,024	229,273	180,384	35	84	87,304	152,265	111,188	258,842
November	98,738	-	227,254	-	69	-	55,128	-	76,041	-
December	95,156	-	240,421	-	94	-	51,269	-	78,744	-
Total	1,319,293	1,026,350					1,058,151	1,615,261		

SELECTED INVENTORY STATISTICS

Cincinnati Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	40,957	51,616	14,835	15,533	15	20	13,752	22,320	35,424	59,543
February	46,354	48,313	14,071	16,843	7	27	53,809	73,744	43,703	91,754
March	88,229	91,430	22,093	21,683	4	19	58,827	104,759	41,048	102,168
April	86,475	97,499	30,280	43,065	11	7	56,673	125,196	52,723	116,815
May	84,931	116,854	29,685	54,278	4	20	74,243	137,152	79,102	92,265
June	94,987	104,346	31,754	68,165	5	24	66,349	127,239	70,319	118,109
July	71,493	81,617	28,614	65,653	10	33	43,360	72,358	60,441	124,390
August	79,450	95,845	19,666	46,109	7	31	67,752	66,791	63,069	94,713
September	69,077	77,955	32,979	40,562	7	32	63,685	54,756	51,120	77,645
October	60,352	56,650	30,690	34,706	9	18	44,118	47,756	43,963	70,831
November	67,534	-	17,159	-	14	-	22,378	-	26,166	-
December	38,868	-	15,759	-	21	-	69,454	-	62,698	-
Total	828,707	822,125					634,400	832,071		

SELECTED INVENTORY STATISTICS

Fresno Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	109,583	167,601	78,950	103,462	40	71	78,390	91,731	98,120	132,081
February	100,735	99,044	55,065	94,681	29	77	138,409	60,536	109,699	154,793
March	180,568	213,689	65,000	117,404	36	75	287,168	204,886	145,870	250,477
April	169,793	195,387	76,344	125,487	19	50	210,775	213,478	168,950	285,683
May	234,818	338,129	104,936	168,839	21	51	288,602	504.061	233,794	445,854
June	233,544	236,349	122,937	190,407	20	51	185,481	312,406	219,906	498,427
July	200,409	206,207	142,227	235,810	24	54	117,856	239,328	182,535	567,688
August	228,333	240,032	142,112	231,084	29	69	145,969	243,686	173,631	549,561
September	141,905	195,496	118,629	212,911	42	75	152,970	203,294	133,822	508,798
October	154,036	181,752	142,477	228,934	49	76	57,890	165,743	81,769	336,096
November	146,234	-	149,769	-	88	-	146,516	-	102,126	-
December	120,369	-	135,467	-	70	-	58,458	-	85,761	-
Total	2,020,327	2,073,686					1,868,484	2,239,149		

SELECTED INVENTORY STATISTICS

Kansas City Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	25,432	47,819	18,800	88,410	21	52	44,892	46,917	45,932	72,980
February	86,896	90,243	29,474	111,100	26	54	98,760	81,546	65,945	141,174
March	136,008	95,946	66,210	80,126	20	58	114,740	145,255	80,083	150,368
April	105,165	156,584	70,487	77,916	30	59	104,650	162,564	95,913	178,888
May	142,266	282,510	66,006	102,865	38	45	131,902	217,556	121,038	200,570
June	175,128	113,971	101,813	108,030	41	42	104,724	211,812	106,656	219,163
July	119,124	104,018	110,106	94,448	45	41	62,253	152,175	85,921	186,450
August	145,041	148,136	114,945	83,343	46	44	79,912	139,481	76,730	163,862
September	91,581	98,438	78,323	59,708	32	35	102,039	81,179	71,678	96,698
October	128,631	76,736	99,859	45,770	28	41	65,681	98,021	55,471	85,414
November	100,224	-	83,981	-	48	-	39,757	-	50,462	-
December	74,111	-	93,142	-	24	-	44,909	-	60,812	-
Total	1,329,607	1,214,401					994,219	1,336,906		

SELECTED INVENTORY STATISTICS

Memphis Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	52,445	54,489	17,693	50,858	14	[a]	46,075	19,979	55,521	154,903
February	57,452	54,443	17,713	35,760	12	[a]	86,431	106,043	82,363	163,249
March	111,775	171,242	29,830	112,141	12	81	188,437	120,226	101,164	214,849
April	123,765	130,055	53,265	109,048	8	96	122,488	149,865	99,221	245,827
May	112,278	157,807	54,687	132,289	16	70	149,328	180,064	116,891	291,470
June	140,880	177,674	74,302	143,731	12	66	115,625	187,307	110,250	309,817
July	96,701	112,660	69,547	161,298	36	64	83,478	136,942	82,022	237,564
August	62,088	118,013	51,353	146,442	[a]	79	68,001	83,888	79,192	174,523
September	68,106	111,632	54,780	141,843	71	83	93,224	104,096	117,202	146,503
October	78,764	88,953	48,885	129,384	77	84	107,343	101,195	142,824	106,420
November	122,729	-	45,027	-	81	-	86,272	-	164,632	-
December	103,409	-	63,655	-	[a]	-	61,640	-	150,082	-
Total	1,130,392	1,176,968					1,208,342	1,189,605		

[a] Data is not available due to computer conversion.

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SELECTED INVENTORY STATISTICS

Ogden Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	84,669	105,803	27,138	86,657	22	a	83,761	b	63,565	65,120
February	89,767	81,241	30,871	61,879	13	55	111,587	56,078	84,907	72,993
March	162,950	139,783	51,891	67,702	13	46	155,680	195,531	81,363	174,266
April	145,993	158,768	64,267	83,469	12	32	136,529	172,876	100,558	173,112
May	193,887	252,591	84,522	127,838	10	39	215,717	296,261	138,084	191,584
June	176,309	212,203	79,821	182,424	16	38	156,344	259,473	112,187	219,827
July	151,622	133,957	85,890	191,091	24	58	94,707	137,372	96,152	206,901
August	182,149	192,491	69,373	162,961	28	66	114,940	152,211	102,906	149,192
September	152,559	129,645	62,548	154,134	25	69	123,157	106,522	77,936	103,695
October	131,970	119,957	64,454	136,073	27	63	88,415	104,187	65,795	74,606
November	133,589	-	74,579	-	a	-	45,744	-	36,496	-
December	102,802	-	74,922	-	51	-	78,438	-	65,120	-
Total	1,708,266	1,526,439					1,405,019	1,480,511		

[a] Data is not available due to computer conversion.

[b] Ogden did not receive or process any unpostables during January 1985.

SELECTED INVENTORY STATISTICS

Philadelphia Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
January	54,970	75,259	40,395	118,922	18	86	53,842	109,331	44,008	94,311
February	70,964	68,125	20,292	114,627	8	63	94,137	48,505	90,537	144,491
March	105,525	46,776	23,680	87,693	10	72	72,278	130,870	62,952	174,293
April	72,318	62,071	24,120	93,326	12	68	95,613	176,627	75,515	243,608
May	121,182	114,263	58,335	142,851	9	60	107,007	169,564	68,167	273,503
June	130,019	91,107	85,126	176,729	14	61	119,450	151,445	74,750	272,503
July	76,796	84,323	87,081	223,322	20	64	73,361	294,204	77,563	444,432
August	102,918	130,322	90,648	210,300	24	77	84,739	166,994	88,884	390,435
September	64,356	146,216	94,189	151,856	30	82	75,802	277,647	76,229	383,113
October	65,637	130,360	95,110	148,124	35	82	89,716	191,479	63,103	311,701
November	69,775	-	78,175	-	[a]	-	93,931	-	65,777	-
December	93,739	-	97,338	-	61[b]	-	22,905	-	30,525	-
Total	1,028,199	948,822					982,781	1,716,666		

[a] Data is not available due to computer conversion.

[b] Overage statistics are for three weeks only.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

GG6-52

February 18, 1986

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In a letter dated January 16, 1986, you asked us to answer several questions to complete the record of recent hearings concerning IRS' service center operations.

Your questions and our responses are enclosed. As agreed with your office, we did not respond to the first, second, and fifth questions you asked with respect to computer acquisition. Rather, we will answer those questions as part of the work we are now doing at IRS' service centers in response to a February 7, 1986, request from your Committee Chairman.

If you or members of the Subcommittee have additional questions, please contact us.

Sincerely yours,

Johnny C. Finch

Johnny C. Finch
Senior Associate Director

Enclosure

SPECIFIC FINDINGS AND RECOMMENDATIONS

Question 1: GAO notes that IRS has improved its "quality assurance" methods. What exactly has been done to date? What additionally does the IRS plan to do? What suggestions does GAO have in this area?

GAO Response:

IRS has taken or plans to take several actions to improve its quality assurance methods. For example, IRS has improved its method for reviewing the quality of work done by tax examiners on the Error Resolution System. In 1985, IRS used a quality review sample selection criteria that did not allow samples to be taken from all the various types of tax returns corrected by tax examiners. Instead, the sample was biased in favor of the easier and less complicated types of tax returns, such as the Forms 1040EZ and 1040A. As a result, the more complicated Form 1040 returns were not always quality reviewed. IRS modified its sample selection criteria to allow samples to be taken from all types of returns corrected by the tax examiners. The results should provide IRS managers with a more complete indication of the quality of work being done on all types of returns.

IRS has also improved its method for reviewing the quality of work performed by data transcribers on the Distributed Input System. The procedures in effect during 1985 for reviewing transcribers' work were cumbersome. A computer printout of the transcriber's work was produced and then compared by quality reviewers with the tax returns that were transcribed. The printouts were difficult to read and often were printed late--after the tax returns had moved to the next processing stage. As a result, quality review was time consuming and often late. IRS has modified its procedures by allowing quality reviewers to review transcribers work on-line and on the day the work is done. This eliminates the need for the computer printout, reduces the time spent looking for tax returns, and provides more immediate feedback to the transcriber.

As another improvement in 1986, IRS plans to increase the number of notices reviewed by its notice review unit, which reviews samples of math error and other notices before they are mailed to taxpayers. Also, IRS has changed its sample selection criteria in an effort to better identify those notices with a high potential for error. The increased review efforts and change in sample selection criteria should help reduce the number of erroneous notices sent to taxpayers.

In 1986, IRS also plans to apply its Program Analysis System to the unpostables unit and the Remittance Processing System. The Program Analysis System is a tool for identifying systemic and procedural deficiencies and provides information for measuring a program's effectiveness. In 1985, this system was piloted in all service centers using tax returns that passed through the Error Resolution System. The error data was transmitted to the National Office where reports were compiled and returned to the respective service centers. In 1986, each service center will have the capability to produce its own reports and analyses of the data. This should enable managers to better and more quickly identify local weaknesses and the corrective action needed.

The actions IRS has taken or plans to take seem reasonable. Based on our limited audit work, we have no further suggestions with respect to quality assurance.

Question 2: "Key verification" is mentioned by the GAO as an issue the IRS has not handled properly. In prior years, an IRS computer operator would "key verify" (or double check) tax return information to ensure that the IRS did not make any mistakes when initially inputting information into the system. This process prevents unpostable accounts (e.g., where the name and social security number do not match) and therefore, prevents the issuance of erroneous delinquency notices. IRS has decided to no longer "key verify" all tax returns, and for those returns that are "key verified," only limited information is checked.

Question 2a: Should the IRS provide for limited "key verification" during the 1986 filing system?

GAO Response:

It is our understanding that IRS, in 1986, is not requiring key verification of the entity data on all returns. It is, instead, requiring key verification of the entity data on those returns transcribed by operators who do not maintain an acceptable level of quality, with each service center establishing its own level of acceptable quality. In our opinion, IRS should begin the 1986 filing season by key verifying the entity data on all processed returns to ensure that unpostable conditions do not occur that would delay issuing refunds and crediting payments to taxpayers' accounts. Before instituting any limited key verification procedures, IRS should determine the error rates it is experiencing with original entry and compare the cost of key verifying entity data on a tax return with the cost of correcting an unpostable condition. Based on this information and considering the public relations problems that resulted from input errors last year, IRS could make a more informed decision on whether to key verify entity data on all individual income tax returns or to key verify the data on a limited number of returns.

Question 2b: Why has IRS changed its procedures?

GAO Response:

IRS officials said they eliminated key verification during the first part of 1985 because the Grace Commission had reported that IRS was key verifying too much data. The Commission cited the current private sector practice of replacing key verification with statistical sampling, error cost analysis, and computer validity checks.

In August 1985, IRS reinstituted key verification of all entity data on individual and business tax returns to reduce the number of returns that were not being posted to the master files due to input errors. However, according to IRS return processing officials, IRS will not be able to maintain this level of key verification in 1986 because of funding constraints.

As an indication of the resources associated with key verification, information we obtained from the Ogden Service Center indicated that it took 20 percent more data conversion resources to key verify than to not key verify. Similarly, a study done at the Andover Service Center during the latter part of 1985 involving Form 941 (Employer's Quarterly Federal Tax Return) showed that 92.5 forms could be transcribed in an average staff hour without key verification compared to 74.1 per staff hour with key verification.

Question 2c: How long does it take to "key verify" a return?

GAO Response:

The time to key verify a return depends on the type of tax return (individual, corporate, etc.), its complexity (such as the number of supplemental schedules included with the return), the expertise of the key verifier, and whether or not the taxpayer used the IRS preprinted label. For individual income tax returns, IRS estimates that an operator can do an average of 6,403 key verification keystrokes per hour compared to 6,947 keystrokes per hour for original entry. On the average, 28.2 characters per return are key verified. Therefore, it takes an operator about 16 seconds to key verify an individual income tax return.

Question 2d: What are the advantages of "key verifying"?

GAO Response

Key verification reduces the number of data transcription errors that would otherwise have to be dealt with by the error correction unit and/or the notice review unit. For example, to the extent that error correction tax examiners fail to correct or improperly correct transcription errors and this failure results in math errors, taxpayers will receive erroneous math error notices unless the erroneous notices are detected in the notice review unit. Therefore, key verification has the advantage of reducing the workload of the error correction and notice review units as well as reducing the number of erroneous math error notices sent to taxpayers.

Key verification also reduces the number of returns that fail to post to the master file because of improperly transcribed entity data. Unpostable returns caused by transcription errors increase the workload of the unpostables unit and delay the issuance of refunds and the crediting of payments to taxpayers' accounts. These delays can result in increased taxpayer correspondence and erroneous balance due notices.

Question 2e: What percentage of returns not "key verified" currently have errors?

GAO Response:

We do not know the percentage of returns not key verified that have transcription errors because IRS does not maintain records that show what was or was not key verified.

Question 3: The GAO reports that it is not confident that tapes containing taxpayer information and tax payments are being "controlled" properly. Last February the Subcommittee held a hearing on "missing" tapes in Philadelphia. We are now informed that, in March 1985, GAO found that 58 tapes from banks and brokerage firms containing dividend and interest information were not timely processed. While 25 of the tapes were ultimately used, 33 tapes were erased. The GAO estimates that failure of the IRS to match the information on the 33 tapes to individuals' tax returns resulted in a revenue loss of $4.1 million.

Question 3a: What specifically causes the GAO to have concerns with the IRS' current handling of computer tapes?

GAO Response:

We would first like to clarify two points made in your prelude to this question. First, $4.1 million in revenue was not lost because of the unposted interest and dividend data. There were about 4.1 million interest and dividend returns that were not posted, and these returns involved about $3 billion in interest and dividends. Although IRS agreed that revenues would be lost, it could not estimate the tax impact associated with the unposted interest and dividend returns.

Second, the statement that 58 tapes from banks and other payers of income were not timely processed could be interpreted to mean that information returns from 58 payers were not timely processed. Actually, more than 58 payers were involved. The tapes were not the actual tapes submitted by banks and other organizations. Instead, the tapes contained information returns from about 1,700 payers that had been sorted and merged by IRS' service centers.

Our concern about IRS' handling of computer tapes derives from two sources--the results of our ongoing review of IRS' processing of Information Returns Program (IRP) computer tapes as highlighted in your prelude to this question and the results of a recent Internal Audit review of service center Computer Branch operations.

In a January 24, 1986, report on the results of its review, IRS' Office of Internal Audit identified specific problems with the handling of tapes at the service centers. It noted that:

> "Signing for custody of tapes, transferred from or to the [magnetic media] library, has not been defined. Procedures differ among centers in acknowledgements of receipt and often no acknowledgements were provided. At one service center, only three reels of a five reel tape file were sent from the service center to the National Computer Center...As a result, a file update was delayed at least one week.
>
> "Procedures for verifying the custody of tapes charged out of the library are not comprehensive. Centers do not physically verify the location of the tapes during the semiannual inventory...
>
> "The [Internal Revenue Manual] requires the Library Function to follow-up after fourteen calendar days on any unacknowledged receipt of a tape shipment; however, the service centers either did not follow-up or follow-up timely...As a result, there is no assurance shipped tapes are timely sent and received."

On December 31, 1985, in commenting on Internal Audit's findings, IRS' Assistant Commissioner for Computer Services agreed that comprehensive and specific instructions are needed to strengthen controls over all tapes that come into the service centers. The Assistant Commissioner indicated that those instructions would be in place by July 1986.

Question 3b: Are situations like the one described above still occurring? If so, why?

GAO Response

Internal Audit's report indicates that the potential remains for situations like the one described above to occur. We are continuing our work at the National Computer Center regarding the IRP magnetic media controls that are in place to assure that computer tapes are processed in a timely manner.

Question 3c: What does IRS need to do to ensure that tapes are processed in a timely manner?

GAO Response

In general, IRS needs to ensure that it effectively implements the recommendations included in the January 24, 1986, Internal Audit report. With respect to the processing of IRP tapes, IRS has made two changes which should help reduce the likelihood of unposted information returns data. First, effective January 1, 1986, IRS service center staff are no longer involved in handling IRP tapes because information returns are now sent directly to IRS' National Computer Center by payers. Second, in response to our May 30, 1985, letter which notified IRS of the unposted interest and dividend information, IRS stated that it was starting a daily problem tape log to record tapes dropped from processing to provide a basis for taking necessary follow up.

Although we believe those actions will help IRS better control IRP tapes, it is imperative that IRS monitor compliance with those controls. We believe, also, that the National Computer Center needs to assure that, when miscoded information returns are sent back to banks and other organizations for correction, the corrected tapes are promptly returned and processed.

Question 3d:	Why hasn't the tape control problem been straightened out?

GAO Response

As discussed in our responses to earlier questions, IRS has taken or plans to take various actions to enhance its controls over the processing of computer tapes. If those actions are effectively implemented and if compliance therewith is appropriately monitored, IRS' tape control problems may be resolved.

Question 4:	The GAO reports that the IRS has increased the dollar amount below which it will not charge estimated tax penalties and business tax deposits (FTD) penalties, and math verify returns. The GAO reports that these changes in "tolerance" levels result in significant revenue losses.
Question 4a:	Why has IRS increased its "tolerance levels"? To save resources? To reduce the number of taxpayer inquiries?

GAO Response

The two reasons you suggested in your question are interrelated and both were factors in IRS' decision to increase its tolerances. IRS' stated intent was to save resources by reducing the number of taxpayer inquiries that would result from penalty assessments and math error notices and by decreasing the amount of work tax examiners would have to do to resolve cases already in the service centers' correspondence inventories.

Question 4b:	Exactly which penalties has the IRS chosen not to apply below certain amounts?

GAO Response

The only penalties for which IRS raised its tolerances during the period in question were the estimated tax penalty and the Federal Tax Deposit penalty.

Question 4c:	How much in revenues will the federal government lose as a result of the IRS' recent changes in "tolerance" levels?

GAO Response

We do not know how much revenue the federal government will ultimately lose as a result of IRS' recent changes to its tolerances. The following estimates of potential revenue loss were among those developed by IRS in advance of its decision to revise certain tolerances:

Federal Tax Deposit penalty	$185 million annually
Estimated tax penalty	$20 to $22 million annually
Math error verification	$3.3 million annually

IRS officials told us that revenue estimates were not developed with precision and were not really a factor in deciding which tolerances to revise. They said that management's primary goal was to revise those tolerances that would allow IRS to make the best use of available resources and would minimize the impact on taxpayers. IRS officials said also that the use of annual estimates was misleading because it was not IRS' intention to keep these revisions in place for a year. In that regard, we were told on January 21, 1986, that the revisions were being reconsidered.

Question 4d: What is the revenue loss of raising "tolerance" levels in relation to the employee costs of handling low dollar penalty cases or low dollar math errors?

GAO Response

Compared to the potential revenue losses cited in response to the previous question, IRS estimated the following annual savings in terms of employee costs:

Federal Tax Deposit penalty	74 staff years
Estimated tax penalty	18 to 20 staff years
Math error verification	10 staff years

We asked IRS officials what those staff years equated to in dollars. Using various service center cost data, they determined that the 74 staff years associated with revising the Federal Tax Deposit tolerance would amount to about $2.5 million a year. Similar estimates were not provided for the other changes in tolerances.

MANAGEMENT

Question 1: How would you characterize the lines of communication between the National Office (Returns Processing and Accounting Division) and Service Centers? What should be done to make these lines of communication more effective?

GAO Response

Although we did not specifically evaluate the lines of communication between the National Office and the service centers, we believe that such communication was less than fully effective during 1985. It was only after returns processing problems had become severe that a nationally coordinated effort was made to identify and resolve common service center problems. For example, all service centers had problems keeping the service center control file accurate and current during the returns processing season, but it was not until June 1985 that the National Office directed the centers to establish task forces to resolve those problems. With better lines of communication, those control file problems might have surfaced sooner and received more immediate management attention.

IRS has taken steps in an attempt to make the lines of communication between the National Office and the service centers more effective. A major step in that regard was establishment of a 24 hours-a-day, 7 days-a-week National Office Command Center. On January 10, 1986, the National Office issued guidelines for service center personnel to follow in using the Command Center, which began operating on January 17, 1986.

According to a December 30, 1985, memorandum to all regional commissioners from IRS' Associate Commissioner for Data Processing, the Command Center will "co exist" with the existing Problem Control and Contact Unit "as a single point of contact for Field problems". The Command Center will "record, route, control, and monitor" problems that affect computer operations and "provide statistical and status information to executives". The Problem Control and Contact Unit will "receive and control Field-reported return processing and other problems and distribute responses."

The above alignment would seem to provide an appropriate framework for improving communication. Whether that framework proves effective will depend on the level of management oversight and the willingness of service center personnel to surface problems so that they can be dealt with through the established mechanism.

Question 2: Who is responsible for managing IRS computer operations and tax return processing systemwide? Isn't it correct that no one below the Deputy IRS Commissioner has overall responsibility? Does this create problems? If so, how should the IRS be restructured to ensure that someone in the IRS has effective day-to-day control over all the IRS' computer systems?

GAO Response

IRS' Associate Commissioner for Data Processing is the Commissioner's principal advisor on policy matters affecting data processing. However, management responsibility for IRS' computer operations is shared by the Associate Commissioner for Data Processing, the Associate Commissioner for Policy and Management, and seven regional commissioners. The Associate Commissioner for Data Processing has management responsibility for the National Computer Center, the Associate Commissioner for Policy and Management has management responsibility for the Detroit Data Center, and the seven regional commissioners have management responsibility for IRS' 10 service centers.

In a report on its review of IRS' procedures and plans for the 1986 filing season, Electronic Data Systems (EDS) noted that "The data processing chain of command within the IRS hinders and may preclude the teamwork required between dependent groups." EDS went on to note that:

> "Effective teamwork among the various groups requires an appreciation and understanding of the other groups responsibilities and functions. However, the present environment is more likely to foster an adversarial relationship. Currently, management functions are fragmented and direct responsibility for all data processing activities is not reached until the level of the Deputy Commissioner. This fragmentation hinders the closeness that naturally results when all inter-related functions are managed by one individual. The Deputy Commissioner needs a single point of management and accountability for all data processing functions."

We have not done the work necessary to develop specific recommendations as to how IRS should be restructured to ensure effective day-to-day control over all of IRS' computer systems.

Question 3: Did GAO find that there were significant problems of improperly discarded or destroyed documents during the 1985 processing year? What steps should be taken to ensure that such incidents do not occur in 1986?

GAO Response

During our work at IRS' service centers, we looked into allegations of improperly discarded or destroyed documents at the Austin and Fresno Service Centers and we analyzed information relating to various incidents at the Philadelphia Service Center. Our work indicated that there were times when certain employees acted inappropriately, but we saw no evidence of a systematic effort within IRS to wrongfully destroy tax returns and/or taxpayer correspondence.

Considering the millions of tax returns and pieces of correspondence that pass through IRS' service centers and the thousands of employees who come in contact with those documents, it is not reasonable to expect IRS to totally prevent individual employees from improperly discarding or destroying such documents. In such cases, IRS must rely on its internal inspection function to investigate the circumstances, recommend appropriate action against responsible employees, and identify any breakdowns in internal controls that may have contributed to the incident.

Certain document mishandling, such as occurred in Austin, has been attributed to the pressures associated with service center work standards. In that regard, the Commissioner of Internal Revenue, during testimony before the Oversight Subcommittee on December 16, 1985, noted that:

> "One dramatic step we've taken to emphasize quality is to revise the ways we evaluate both employees and managers. In the future, quality will be one of the standards required of both categories: for employees, incentive pay arrangements in the service centers will include quality as an explicit consideration, while for managers at all levels quality will be a performance requirement for any bonuses or merit increases."

We believe that the inclusion of quality as a standard in evaluating service center employees and managers could help relieve the kind of production pressure that has been pointed to as a cause of some document mishandling.

Question 4: Reports indicate that the IRS is suffering from a high employee turnover rate and problems in training new (rather than returning) seasonal workers.

Question 4a: Does GAO believe the turnover rate and training is a problem?

GAO Response

We believe that turnover at IRS service centers has been and probably will continue to be a serious problem and that such turnover will continue to present the service centers with a training burden. Officials at several service centers told us they had problems attracting new employees and retaining experienced employees. Among the factors they cited were the lack of part-time work and flexible work hours, job stress due to performance standards, the short-term nature of seasonal employment, and entry level salaries that are often lower than those offered by local fast food restaurants. For example

--Officials in Atlanta told us that the Taxpayer Relations Branch experienced a 49 percent turnover in 1985 and that this affected the Branch's ability to effectively respond to taxpayer inquiries.

--Officials from Brookhaven told us that of about 200 employees in the Collection Branch in 1985, 90 transferred to higher graded positions in other organizational units.

--Officials in Kansas City told us that the Adjustments and Correspondence Branch had considerable turnover among seasonal employees who were looking for permanent jobs.

--Officials in Ogden told us that the Adjustments and Correspondence Branch in that service center was affected by a shortage of experienced staff because they were able to get better pay and better working conditions at other agencies.

Because each new employee has to be trained, turnover problems can cause training problems. IRS' training problems in 1985 were not all due to staff turnover, however. Some were caused by such things as late receipt of training materials, an insufficient number of instructors, and inadequately prepared instructors. Our contacts with the service centers in early December 1985 indicated that training for 1986 was proceeding on course. In accordance with Chairman Rostenkowski's February 7, 1986, request, we will be asking about the status of service center training programs as part of the work we are now doing at the 10 service centers and will advise you of our results in the near future.

COMPUTER ACQUISITION

Question 3: What lessons should the IRS have learned in acquiring and implementing the Service Center Replacement System (SCRS)?

GAO Response

As noted in our testimony, we believe that one lesson IRS should have learned in acquiring and implementing SCRS is the need to establish an appropriate organizational focal point for managing a procurement from system design through implementation. Although there was a focal point (in the form of a Systems Development Office) during the planning for SCRS, that office was disbanded once overall plans were in place and the SCRS project was started. In the absence of a controlling organizational component to oversee SCRS, critical functions, such as ensuring that system sizing assumptions were adhered to, milestone dates were reasonable, and software was fully tested before implementation, were not effectively carried out.

Question 4: What steps should be taken by the IRS to provide for effective management of future computer acquisitions?

GAO Response

IRS is planning several ADP acquisitions to help meet its growing workload demands. To successfully acquire and implement the right kind and amount of hardware and software to meet its needs, IRS' system of management controls must ensure that the acquisition process occurs in a structured and disciplined manner. As we point out in our response to the preceding question, an important ingredient in this regard is the establishment of an organizational focal point with the authority and responsibility for managing acquisitions.

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

RECEIVED
JAN 22 1986
Ways and Means
Subcommittee on Oversight

JAN 21 1986

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
1105 Longworth Building
Washington, DC 20515

Dear Mr. Chairman:

Enclosed are responses to the three questions raised in your December 20 letter concerning the impact of the recently enacted Gramm-Rudman-Hollings legislation on the IRS. I appreciate your continued interest in the adequacy of IRS resources.

If we can be of further assistance, please let me know.

With kind regards,

Sincerely,

Roscoe Egger

1. QUESTION: Will the IRS be subject to a sequestration order as required in Gramm-Rudman?

ANSWER: It is our understanding that IRS will be subject to automatic "across-the-board" reductions mandated to most federal government programs under the Balanced Budget and Emergency Deficit Control Act of 1985.

2. QUESTION: If so, what in your current estimate of the amount of reduction in IRS expenditures that would be required under such an order?

ANSWER: Based on published information, it appears our reduction will be four and three-tenths percent. This means a reduction of $156.6 million to the IRS' FY 1986 budget.

3. QUESTION: Finally, what impact would such a reduction have on the 1986 filing season?

ANSWER: Unfortunately, we are not now able to provide an analysis of the impact of a reduction in the 1986 filing season. Work on such an analysis is currently ongoing and has the highest priority. In any event, we intend to make every possible effort to protect the filing season from adverse impact under Gramm-Rudman. To the extent possible, we intend to apply any such reductions to other IRS activities.

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

MAR 14 1986

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
1105 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is our response to the 27 questions contained in your January 16, 1986, letter to me regarding the operation of our Service Centers.

If there is any additional information I can provide, please do not hesitate to contact me.

With kind regards,

Sincerely,

Roscoe Egger

A. OVERVIEW

(1) In reviewing the many problems experienced by the IRS this year, studies indicate that in almost every case it was the inability of the IRS to effectively use its new computer system to handle the workload which caused the problems. Do you agree that computer system shortcomings caused and magnified many of the other troubles which plagued the IRS in 1985?

The data processing activities of the IRS involve the use of a number of separate but interdependent computer systems. With the recognition that there is no one single computer system and understanding that the performance of any system is dependent upon a variety of hardware, software, operational, and other factors, the IRS agrees that problems in the computer systems did cause or magnify other troubles.

(2) The various experts, both inside and outside of the IRS, have suggested that the IRS computer system's ability to handle the workload could be improved by getting more hardware, by improving the software, and by better training and managing the staff that operates the system. What four or five main lessons did the IRS learn in 1985 relating to computer system acquisition and implementation?

As a result of our experience with SCRS (including the 1985 filing season) the Service has taken action in many ways to improve our ADP acquisition and implementation process, seven of which are listed below:

- Increase top level management involvement and oversight through the Automation Policy Board (APB) and the Automation Implementation Control Group (AICG).
- Design and implement all major new ADP projects under the control of a Project Office. (The Automated Collection System (ACS) was successfully implemented in this way. The Tax System Redesign Project (TSR) has been raised to Assistant Commissioner level.)

- Improve contingency planning for problems that may arise during the transition period between old and new systems.
- Ensure that to the extent possible, future projects follow a modular, evolutionary development process.
- Ensure that benchmark programs used during the equipment sizing process accurately reflect the Service's actual production environment.
- Maximize user involvement during project definition and development to ensure acceptability of the final product.
- Improve the timeliness and quality of training and standardize procedures for computer systems personnel.

The Service has made substantial efforts to analyze the problems of the 1985 filing season and has taken the necessary steps to ensure that 1986 plans are designed to eliminate the causes. The 1986 processing season is being monitored closely to identify problems quickly and make needed changes on an expeditious basis. In addition, we are making greater efforts to increase managers' awareness of how their functions relate to the entire IRS tax administration system and to ensure frequent and productive communication between the National Office, regions and the service centers.

B. COMPUTER HARDWARE

(1) What steps have you taken to acquire more computer hardware for 1986?

A limited competition contract was awarded to Sperry Corporation on August 12, 1985. SCUMPS (Service Center Upgrade of Mainframe Processing Systems), consisted of the acquisition of twenty (20) processors (CPU's) and associated peripherals.

All service center equipment has been installed and tested.

Site	Processor(s)	Date Delivered	Ready-For-Use (RFU)
B[illegible]C	2	08/13/85	08/30/85
ANSC	2	08/27/85	09/20/85
FSC	2	08/26/85	11/01/85
PSC	2	08/29/85	09/25/85
KCSC	2	08/28/85	10/03/85
CSC	2	09/04/85	10/17/85
MSC	2	09/20/85	10/18/85
OSC	2	09/06/85	10/28/85
AUSC	2	09/20/85	12/06/85
ATSC	1	09/17/85	11/15/85
BSC	1	09/17/85	10/15/85
	20		

In addition to the CPU's, all controllers and disk drives scheduled for January 1986 have been delivered and testing completed.

(2) How much will this cost?

The total FY 1986 cost for the above equipment is approximately $18 million. The total systems life cost through FY 1989 is approximately $69 million.

(3) Do you have the necessary funds to pay for these acquisitions?

Final decisions with respect to how computer capacity shortfalls would be handled were not made until after submission of our original FY 1986 Budget which did not include sufficient resources to fund these acquisitions. Our Supplemental request does include $4.5 million to cover these unfunded FY 1986 needs.

(4) The computer capacity you acquired in January 1985 went largely unused until March because of a shortage of tape drives. Is this kind of situation going to recur, or have you installed and tested the additional computers and supporting hardware that you intend to use in 1986 so that you know they are currently operational and fully usable?

We do not anticipate any recurrence of equipment related shortfalls. All of the new systems, including peripherals, have been installed and acceptance testing has been successfully completed.

(5) According to the GAO reports, there were delays in reducing the backlogs in Error Resolution, Examination, and Unpostable inventories because of a shortage of computer terminals. Are additional terminals now being acquired? Will they be fully functional in 1986? Will they be sufficient to meet your workload in a timely manner?

IRS' plans to increase the number of terminals is linked to the recently awarded contract to replace the service centers' "front-end" communications processors. The linkage is two-fold. First, in the four largest centers the existing Sperry 90/40 communications processors cannot accommodate additional terminals. Second, the contract is the vehicle for the purchase of additional terminals for all centers.

The IDRS Terminal Replacement Phase II contract was awarded to Computer Systems & Resources, Inc., on October 2, 1985, to replace the communications processors and 4,100 old Control Data Corporation (CDC) terminals and printers. The initial delivery of terminals was to include 900 expansion terminals as well. Under this contract, an additional 5,000 terminals, three additional communications processors, and many upgrades were to be available as permitted by available funding. The contract required that the communications processors provide a much higher level of availability (99.5%) than the present Sperry 90/40 systems. Redundant features were also required by the contract to provide backup.

Protests were filed with the General Services Administration's Board of Contract Appeals (GSBCA) by the unsuccessful bidders in October 1985. GSBCA suspended performance under the contract pending a decision on the merits of the protests. Hearings were held and a decision was issued January 23, 1986. The decision disallowed the CS&R contract but permitted IRS to award to Sysorex Information Systems, Inc., under the current Delegation of Procurement Authority (DPA) and current solicitation, or to seek another DPA from GSA and conduct a limited or full recompetition. After a thorough review of each alternative, the Phase II contract was awarded to Sysorex on February 11, 1986.

Under the original project schedule, the four largest service center networks would have been replaced with the new equipment prior to the 1987 filing season. The protest process introduced a four-month delay. The pilot service center installation is now scheduled to occur in November 1986. The next installation may not occur until May 1987, after the 1987 filing season, to avoid disruption of service center processing. All remaining centers will be installed by December 1987.

Each service center network will be expanded by approximately 90 IDRS terminals at the initial installation of the new system. The next terminal expansion of approximately 125 terminals per service center that is planned will be in July 1987, prior to the 1988 filing season. Further terminal expansion in increments of 125 terminals per service center is planned for July 1988 (prior to the 1989 filing season), July 1989 (prior to the 1990 filing season) and July 1990 (prior to the 1991 filing season).

The feasibility of an accelerated installation schedule is being discussed with Sysorex. Depending on adequate funding, IRS could replace all remote CDC terminals by December 1986. Additionally, the Sperry 90/40 front-end processors and local CDC terminals in the four highest volume centers (Atlanta, Austin, Fresno, and Ogden) could be replaced by December 1986, prior to the 1987 filing season.

The acquisition of additional terminals is dependent upon available funding. The current plan for terminal options could be accelerated significantly if adequate funding is obtained.

(6) Vital IRS functions such as Error Resolution, Taxpayer Correspondence, Unpostables, Criminal Investigation, Audits, Examinations, Taxpayer Telephone Service, Collections, and others depend on the IDRS computer information system. In 1985, the availability of the IDRS system was severely limited because computer resources were being devoted to batch processing of tax returns. While you have assured us that you have sufficient computer capability to meet these batch processing in 1986, studies by the GAO and EDS emphasize that the IDRS computer system front-end processors are essential to IDRS availability. These processors are 15 years old and increasingly unreliable. Each Service Center has only one, with no backup system. In light of this problem, how will you expand current service in these areas?

The present Sperry 90/40 communications processors were acquired in June 1979 and are about seven years old. IRS and Sperry have improved the reliability of the communications processors through hardware and software modifications. Sperry has allocated two additional 90/40s for emergency replacement if an extended equipment failure should occur.

The Communications Replacement System (CRS), which will replace the Sperry 90/40, was included in the IDRS Terminal Replacement Phase II solicitation discussed in B(5). The solicitation required that the communications processor be available 99.5% of the time per month, which is considerably higher than the requirement for the present system. The solicitation also required redundant features to provide backup in case of failure. A sharply decreasing maintenance payment scale will be tied to the system's availability and increasing maintenance incentive payments are included for availability levels above 99.5%. The solicitation included other provisions which were designed to ensure high systems availability and provided for an extensive post-award benchmark test at the National Computer Center (NCC) prior to installation in any service center. Without the CRS, few additional IDRS terminals can be added to the saturated Sperry 90/40 communications processors.

As noted, the CRS contract was awarded to Sysorex on February 11, 1986. This will not affect the 1986 filing season processing, but we anticipate beginning replacement of the Sperry 90/40 systems in November 1986, prior to the 1987 filing season. As each service center system is replaced we anticipate measurable improvements in response time and system reliability.

C. COMPUTER SOFTWARE

(1a) A major problem in 1985 cited by all studies is that the software ran far slower than was originally expected. What steps have you taken to "optimize" the computer software?

A number of steps have been taken to improve the efficiency of service center processing. These actions range from specific computer program changes to project design changes. Specific efficiency actions were:

SCRS Weekend Processing Improvements - Three phases of SCRS weekend program optimization were accomplished during the period from 6/84 to 6/85. In Phase I, optimized data base interface routines were developed to improve the performance of several major weekend update analysis programs. This effort netted a 30% reduction in total weekend update time.

In Phase II of the SCRS weekend optimization, the same techniques were used to optimize all major weekend update programs. In addition, extensive logic changes were implemented in several of the programs. Phase II of optimization yielded a 53% reduction in the run times over the non-optimized weekend programs.

In Phase III of the weekend optimization, the data base interface routine was revised to take advantage of specific information known to the data base software, and utilize it in the data base routines. This resulted in additional improvements. The overall reduction from non-optimized processing of weekend programs was 68%.

Additional changes are planned for July 1986 to allow more parallel processing on the weekend, and shorten overall processing time.

Daily Batch Processing - The primary improvements in the daily batch processing were the inclusion of functional checkpoint/restart processing in the Generalized Mainline Framework which eliminated lengthy reruns, the segmentation of daily Taxpayer Index File updates which reduced overall runtime, and a significant reduction in tape drive requirements to facilitate multiprogramming.

Real Time Processing - The real time requirements do not strain the capacity of the Univac 1100/84 computers in the service centers. The primary reason for loss of real time during 1985 was the intrusion of batch processing into the real time period. We have developed software to allow or restrict files from real time access so that most of real time can be available while batch processing continues on selected files in the background.

Real time response time problems experienced in early 1985 were due to errors in the communications software in the communications network. Sperry identified and corrected the problems in their software.

In addition, we performed communication network reviews in each service center to ensure that the entire communications network was configured properly and performing optimally. We also provided special training courses for the service center Resident Programmer Analysts and Remote Terminal Technicians in operation of the communications network.

(1b) Have all 1,500 programs now been optimized?

No, not every program has been optimized. Each system was reviewed to determine if there were processing bottlenecks, or if program design changes or data base changes would improve processing throughput. Changes were made if there was a potential for significant improvement in run time or a reduction in computer peripherals required. Some of these specific improvements include:

Centralized Authorization Files - The data base design was changed and batch and real time processing were redesigned to eliminate 1 periodic run, 4 daily runs, 2 weekly runs, and 5 quarterly runs. Real time programs were also optimized to improve response time.

Generalized Unpostable Framework - The data base design was changed to accommodate larger volumes, and reduce batch run time when data base volumes fluctuate beyond predicted values. Before the change, an update program could run over 30 hours once a threshold volume was exceeded. After the change, the run time of this weekly run was reduced to 2 hours.

Audit Management Information System - Programs were optimized and the data base was further segmented to increase parallel processing. The design changes also gave the service centers greater flexibility in scheduling the running of these programs.

Underreporter, Daily Processing, and other projects - The primary optimization in these projects was to reduce the number of tape drives required, ensure that checkpoint/restart was functional in every major run, and reduce the amount of operator intervention required to run a series of programs. In addition, each system was reviewed to ensure that adequate controls were present to avoid operational errors and detect data problems.

(2) Will the current software run on the new hardware that you are putting in place for the upcoming filing season, or will further changes be necessary?

Yes, the software will run without modification on the new hardware. There were minor changes in operational procedures to move files to the additional hardware installed during 1985. Procedures for switching peripherals and moving data files were demonstrated at the Multiple System Utilization Seminar held at the Austin Service Center in August of 1985.

(3) In 1985, the software was delivered late, without full testing, and without full documentation. This caused subsequent operator errors, loss of tax data, and erroneous notices. Has the software for the 1986 filing season been written, optimized, tested and delivered to the Service Centers so that the operating staff is familiar with it?

Software for 1986 processing was tested by the Systems Acceptability Testing Branch which included testing in selected service centers.

End of year briefings were conducted in every service center to explain 1986 processing changes. Documentation for the end of year conversion and changes in 1986 processing was distributed and reviewed at these briefings.

(4) The Distributed Input System (DIS) caused data to become "hung" in the computer and then lost, duplicated or processed in the wrong sequence. Has this DIS software been corrected so that the problems of last year will not be repeated?

All known DIS system software and application program errors have been corrected. Additionally, all DIS programs for the 1986 filing season have undergone a vigorous Systems Acceptability Test.

To ensure that all DIS problem areas were addressed, the task force formed in February 1985 to deal with pipeline data problems formulated an action plan consisting of 68 action items. At this date almost all have been completed, and have resulted in the improved reliability of the DIS. Major improvements are as follows:

- Automated run-to-run balancing has been incorporated throughout the pipeline (DIS, OCR, ERS, and GMF).
- A data integrity and run-to-run balancing handbook has been developed and training in its use has been provided to all service centers.
- A DIS supervisor's manual has been developed and training in its use has been conducted at all service centers.
- More than 400 pages of handbook changes have been transmitted.

In concert with the implementation of the action plan, the task force conducted readiness checks in each of the ten service centers during the fall of last year. These reviews were designed to determine if the service centers were properly processing pipeline data according to established procedures.

(5a) In a number of instances the Service lost track of computer tapes and did not run them on time, or prematurely erased them. We understand that tape inventory and scheduling is handled by the Service Centers' automated tape inventory system, known as STAR. Apparently the programming from the National Office was not compatible with the STAR system and the STAR 1100/82 computers in the service centers. Have these problems been corrected, or should we expect continued mix-ups in the processing of tapes?

Tape inventory, but not scheduling, is handled by the software, System for Tape Administration and Reporting (STAR). During 1985, IRS did not have a method whereby the STAR could operate on both Sperry 1100 computer systems using a single logical tape inventory file. For 1986 processing, the IRS has implemented a system that allows both Sperry 1100 computer systems to maintain and use a single logical tape inventory file. This system will provide better control of and help prevent premature erasures of magnetic tapes.

(5b) Are there manual control procedures in place sufficient to alert the computer operators of a failure to process tapes in time to avoid inconvenience to the public?

Yes. Adequate manual control procedures have been instituted to ensure that the public will not be inconvenienced if there is a failure to process a computer tape. Revisions have been made to the Internal Revenue Manual pertaining to the management of magnetic media. The magnetic media controls have been coordinated with and involve all levels of National Computer Center and Service Center personnel, from computer operators through Directors.

D. THE CARRYOVER OF 1985 INVENTORY BACKLOGS INTO 1986

(1) Studies by GAO, EDS, and the IRS Office of Internal Audit indicate that large inventories of unfinished work from the 1984 tax year prevented the IRS from efficiently handling its 1985 workload and that this directly and negatively affected taxpayers. Information provided by GAO shows that IRS inventories remain large as of the end of 1985. What steps have you taken to reduce these inventories and to what level do you plan to reduce them in order to avoid their adverse impact on taxpayers?

Error Resolution System (ERS) inventories of 1984 returns are under management control and we are working prior year documents on an expeditious basis. Unpostable criteria were revised or deleted as necessary and the system was enhanced to reduce the volume generated. We have hired additional staff to handle increased workloads and with the year of experience on the new system, we have become more efficient.

Additional staff has been hired, correspondence criteria changed, cases transshipped to other centers or districts, and back-up systems have been developed to reduce adjustment inventories. Although inventories have decreased, they still remain high. We anticipate improved quality in processing to result in a reduction of adjustment receipts and, therefore, a more rapid decrease of current inventory levels.

In June 1985, a special task force was established in each service center to clean up the backlog on the Service Center Control File. This task force was charged with resolving all transactions established on a control file prior to June 1, 1985. At this point in time, all service centers have made significant progress in reducing control file backlogs. We will continue to emphasize this area until all control file inventories are brought to an acceptable level of under 50,000 items.

(2) The IRS has had to respond to record-high workloads in the area of error resolution and unpostable returns. The GAO has reported that a failure to use key verification has contributed substantially to these backlogs. Internal Audit has found that IRS operators inputting tax return data had error rates as high as 28 percent. GAO also reports that quality assurance sampling techniques were faulty during the 1985 season. Finally, EDS has recommended that a systemic method of measuring quality of work should be established for all areas in the pipeline. In light of the problems encountered in 1985 and the general support for this technology, why was the key verification system abandoned? Will it be reinstated during 1986? What data will be subject to key verification?

The Key Verification (KV) System was not abandoned. Validity checks have been built into the software used in the Distributed Input System (DIS) which has replaced Direct Data Entry (DDE) equipment. These validity checks ensure that certain incorrect data will not be accepted.

In addition, for the 1986 filing season key verification of entity information (name, address, and taxpayer identifying number) is being performed for all entity data input by those operators not maintaining an acceptable error rate. Each operator will be subjected to a review on a scheduled basis, i.e., weekly, bi-monthly, or monthly. The outcome of each review will determine whether the work of the operator is subjected to key verification.

A structured system has been established to measure product quality for pipeline functions through the Error Resolution System (ERS). This Program Analysis System (PAS) will provide daily feedback on the types of errors made in processing individual tax returns and who is making them. It will be installed in Unpostables in April 1986. With this in place, we will be able to provide statistical data on unpostable errors as well as pipeline errors. From this data, we will identify specific error causes that can be resolved by additional training and/or procedural changes.

(3) Another area affecting the collection of revenue and auditing of returns is the level of discrepancy that you will tolerate in a taxpayer's return before taking corrective action. It has been reported in the press and by the GAO that these tolerance levels will be increased. It is my understanding that this will cost the Treasury in excess of $200 million per year. Is this revenue loss correct? Why do you plan to increase the tolerance levels? In what areas? If the tolerance levels would not increase, would you have the resources to effectively handle the greater amount of work?

The $200 million figure is an estimate of the annual revenue loss which would result from increasing the Federal Tax Deposit (FTD) penalty tolerance. The estimate should be reduced to account for the large volume of penalties which are abated because of reasonable cause or subsequent locating of the timely paid tax deposit.

Tolerances are generally established or changed in order to provide for the most cost-beneficial and reasonable administration of the tax laws. Although the inventory levels in our service centers were certainly the impetus for the changes made last year, these changes were made only after careful consideration of the projected impact on revenue, voluntary compliance, and inventory levels. In addition to the Federal Tax Deposit (FTD) penalty, the tolerances for the estimated tax penalty, return verification, math errors, missing return information (requiring correspondence), and amended returns (requiring special processing) were also increased. We are currently reviewing this area to assess the impact of our actions and to determine future needs.

(4) By the end of this November 1985, an estimated 25,000 1984 returns had not been processed for refunds. There is some concern that the figure hides the fact that additional unidentified returns have been "lost".

a. Is it correct that approximately 25,000 tax returns from 1985 have not received tax refunds? Please provide information indicating the number of such returns in each service center.

The total volume of timely filed and duplicate returns still awaiting refunds as of March 7, 1986, was 561. The majority of these were held up due to processing problems or missing information that taxpayers have been requested to provide. Breakouts by service center are as follows:

Service Center	Number of Returns	Service Center	Number of Returns
Andover	50	Fresno	259
Atlanta	16	Kansas City	0
Austin	0	Memphis	0
Brookhaven	130	Ogden	14
Cincinnati	6	Philadelphia	86

b. Is there concern that additional unidentified 1985 returns are "lost"? If so, what is the IRS doing about it?

We have no information to indicate there are "lost" refund returns not included in this count. However, there are established procedures for assisting taxpayers who notify us that a refund has not been received. Also, through our normal compliance procedures we will identify and contact those taxpayers who should have filed a return and for whom we have no record of receiving or processing a return.

(5) According to IRS figures, the interest paid on late refunds was $43.6 million at the end of November 1985. This compares to $27.7 million for 1984 and represents a 57 percent increase.

a. What does the IRS expect the final "late interest" cost for 1985 to be?

The "late interest" figure as of December 27, 1985, was $49,530,190. This increased interest cost reflects a number of factors other than processing delays. For example, interest costs were higher due to an increase in the average amount of the refunds and the number of refunds plus the generally delayed filing pattern. We will provide the final "late interest" amount to you when it is available.

b. On how many returns does the IRS expect to pay "late interest" in 1986? How much will this cost?

Based on a series of assumptions, we estimate that we will pay on the order of $40 million in "late interest" on timely filed 1985 individual refund returns.

E. TRAINING, TELEPHONE, AND MANAGEMENT DECISIONS

(1) While the complaints of 1985 have largely involved problems in tax processing and taxpayer service, it is important that tax collection not be overlooked. The percentage of returns audited has declined over the past several years. What percentage of individual tax returns were in fact audited in 1985? What percentage of returns do you anticipate auditing in 1986?

During FY 1985 1.31% of the individual returns filed were examined. We expect to examine 1.09% of the individual returns filed in FY 1986.

(2) In analyzing the root causes of the computer hardware and software problems of the last year, both the staff of the House Committee on Appropriations and the GAO concluded that a major factor was the absence of any group within the IRS with the authority and responsibility for developing and carrying out a long-range Automated Data Processing (ADP) plan. Does the IRS have a long range ADP plan? What office developed that plan? Who will be responsible for its implementation? Will you make that plan available to the Subcommittee?

The Service does have a "long range ADP plan" which is called the Information Systems Plan (ISP). Overall policies for ADP planning are set by the Service's Automation Policy Board (APB) which is chaired by the Deputy Commissioner. The Assistant Commissioner (Planning, Finance and Research) coordinates development of the ISP under the guidance of the Automation Policy Board. Each Assistant Commissioner is responsible for development and implementation of information systems initiatives (i.e. ADP projects) in the context of the framework outlined in the ISP. For example, the Assistant Commissioner (Examination) is responsible for implementation of the Automated Examination System (AES) which will automate examination processes. The Service's Automation Implementation Control Group coordinates the execution of approved major projects consistent with goals and objectives outlined in the ISP.

(3) Your own Internal Audit report indicates that there is a general lack of accountability within the Service for completing programs. In light of the recommendations from Internal Audit, what changes have been made to increase accountability within the Service?

We have shared the Internal Audit report, "Improving the Returns Processing Activity in the IRS," with National Office data processing officials and with the Regional Commissioners, emphasizing those recommendations relating to accountability. Our message addressed the strong recommendation made by Internal Audit that specific officials should be designated the responsibility for program accomplishments and that such accountability should be incorporated into the responsible official's SES-Merit Pay Expectations.

(4) According to the reports by the GAO, EDS, and Internal Audit, the ability of the IRS to respond to computer processing problems is hurt by the lack of rapid communications between the National Office and the various functional areas within the service centers. This has resulted in problems going unaddressed or by problems being handled differently in the various service centers. What steps have been taken to improve the communication of problems and their resolution between the National Office, the National Computer Center, and the ten service centers?

To reduce the communication problems, bi-weekly conference calls to Assistant Regional Commissioners and service center directors are being conducted by the Assistant Commissioner (Returns and Information Processing) and the Assistant Commissioner (Computer Services). These calls began January 6, 1986.

As necessary, breakthrough meetings are being held between the National Office, field users, and systems analysts to propose, analyze, and discuss potential system enhancements. For example, a Federal Tax Deposit Conference was held at the Memphis Service Center in November 1985.

On January 17, 1986, the National Office Command Center (NOCC) started operation. The NOCC is open twenty-four (24) hours a day, seven (7) days a week and is a centralized point of contact for the service centers to report computer processing problems. All reported problems are logged and the appropriate programmer/analyst is contacted to effect resolution.

If a problem has been declared critical, it is escalated to the attention of higher management at predefined time intervals if not resolved. When a problem is reported by a service center or programmer/analyst that might affect the other service centers, the NOCC notifies the other service centers of the problem and of any proposed solution or procedure to follow.

(5) In the report made to you by the Internal Audit Division, an analysis is made of the problems associated with resolving discrepancies in deposits made by the IRS banks. The report specifically cites 19 discrepancies resolved in May 1985 and that:

-- The discrepancies were identified in 1983;

-- The necessary bank adjustments were not made until five to 16 months after corrections were requested by the Accounting Branch;

-- Case files did not indicate follow-up action with the bank by the Accounting Branch;

-- Total time to resolve the cases ranged from 20 to 28 months; and

-- Untimely resolution of bank discrepancies can lead to erroneous refunds and balance-due notices.

What steps have you taken to speed up the resolution of these bank discrepancies?

Since August 1985, a report is required of each service center by the seventh work day of the immediately succeeding month. The report details activity within the deposit discrepancy inventory. A summary of this data with narrative is forwarded through channels to the Commissioner.

With this increased attention on this sensitive issue at all levels of the Service, the national inventory of deposit discrepancies has dropped from 6,860 items ($28 million) in September 1985 to 4,833 items ($19 million) at the end of December 1985.

National Office personnel have been in frequent contact with regional and service center employees as needed to discuss the processing and reporting of these discrepancies.

F. THE ADEQUACY OF RESOURCES

(1) Has the Treasury Department supported your budget request for FY 1987? How much of your request have they disallowed?

Yes, the Treasury Department has supported our budget request for FY 1987. The Department has given considerable attention to the critical needs of tax administration both in terms of improved tax processing system and operations, and strengthening tax enforcement. Of the initial estimate submitted for review totaling $4.3 billion, the Department approved 96 percent.

(2) Has the Office of Management and Budget supported your budget request for FY 1987? How much of your request have they disallowed?

The Office of Management and Budget has also supported our FY 1987 budget request. The Administration is firmly committed to budget levels for the Internal Revenue Service, both in FY 1986 and FY 1987, that will restore full effectiveness to tax processing, improve taxpayer service, and greatly enhance the Service's ability to identify and collect taxes owed. The Office of Management and Budget approved all but one-half of one percent ($22 million) of the Service's $4.1 billion budget request for FY 1987.

(3) I understand that the Administration intends to present Congress with a supplemental budget request for FY 1986. Is this correct? How much have you requested in this supplemental, and has your request been fully supported by the Treasury Department and the Office of Management and Budget? If you do not receive your supplemental budget request what cutbacks in staffing and computer acquisitions will you have to make? What will be the effect on revenue collections?

The Administration has sent to the Congress a supplemental budget request for the Service totaling $340 million. This supplemental is necessary to (1) restore full effectiveness and high quality to tax processing this filing season, including needed system improvements, (2) fund mandatory operating costs not provided in the original budget, (3) ensure the Service's ability to collect the revenues currently forecast for the year, and (4) initiate hiring of additional agents late this year for the FY 1987 - 1991 revenue initiative which will collect an additional $10 billion in unreported tax over that period.

This supplemental request, which has been fully supported both by the Treasury Department and OMB, is crucial to the continued, effective operations of the Service this fiscal year.

Failure to appropriate the $340 million request would create an operational crisis for the tax system. Ninety-five percent of the funds requested is already committed for this year's tax filing season, which is well underway and to maintain tax enforcement operations at levels assumed in the current revenue forecast. Loss of this funding would force drastic curtailment of operations and would necessitate furlough of the IRS workforce. Loss of needed tax revenues to finance the Federal Government would run into the billions.

(4) The Balanced Budget and Emergency Deficit Control Act recently signed into law requires that federal budget deficits be reduced beginning in FY 1986. What is your estimate as to the potential budget reduction faced by the IRS as a result of this Act? What impact would this have on the 1986 filing season and the level of revenue the IRS could collect?

As a result of the Balanced Budget and Emergency Deficit Control Act, the Service's FY 1986 budget was reduced by $157 million.

The impact of this reduction will fall heavily on administrative and support functions. The Service intends to meet its basic responsibilities to process tax returns, account for tax revenues and issue refunds and notices. We will provide information and assistance to taxpayers to help them comply with the tax laws and to resolve their account questions or concerns. At the present time, the amount of revenue forecast in the President's budget for the current year (FY 1986) will not be adversely affected.

LETTER FROM FORMER IRS COMMISSIONERS URGING AN INCREASE IN THE IRS BUDGET FOR FISCAL YEARS 1986 AND 1987

January 17, 1986

RECEIVED
JAN 23 1986
Ways and Means
Subcommittee on Oversight

The Honorable James A. Baker, III
Secretary of the Treasury
Department of the Treasury
Room 3330 Main Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable James C. Miller
Director
Office of Management and Budget
Room 252 Old Executive Office Building
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Dear Secretary Baker and Director Miller:

We are all the persons privileged to have served as Commissioner of Internal Revenue between 1961 and 1980. Three of us served primarily in Republican Administrations (Presidents Nixon and Ford) and three in Democratic Administrations (Presidents Kennedy, Johnson and Carter). We are deeply concerned over the health of our economic system and particularly the health of our tax system. The efforts of the Administration and Congress to reduce the budget deficit are to be applauded, although each of us may have different views on how to accomplish this reduction.

This letter is to express our profound concern about the adverse effects which the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman) may have on our revenue system.

Our tax system has been a source of pride and strength to our country. It depends on the voluntary filing of complete returns by individuals and businesses and the proper reporting of income and deductions. Taxpayers' willingness to cooperate depends significantly on their confidence in the fairness of the system and their perception that it is vigorously enforced against those who do not comply.

We strongly believe that the resources available to the IRS for its job of administering the tax law are inadequate. Essential to the maintenance of our voluntary compliance system is an effective IRS to process returns, assist taxpayers, collect taxes due, audit returns, and provide all the services required for fair and efficient administration. The cost of administering our system has always been remarkably low--about 50 cents for every $100 of overall collections during the last 20 years. If voluntary compliance falls, even by a small percentage, the cost of recouping the revenue loss becomes exorbitant.

IRS does not now have all the resources that it needs to administer the tax system fairly and effectively. We are convinced that the Gramm-Rudman provisions, if applied to IRS, will exacerbate an already bad situation.

Gramm-Rudman reductions will affect every IRS activity. Returns processing will be slowed because there will be fewer people and machines to enter information into the system. Errors will not be corrected, correspondence will go unanswered and taxpayers will not receive timely refunds. Taxpayer service will decline, fewer returns will be audited and fewer delinquent accounts collected. All of this because of cuts mandated by Gramm-Rudman.

We are distressed that IRS' examination level is now down to 1.2% of returns filed. In 1975 it was 2.56%. These cuts in the Service's programs will result in revenue shortfalls many times the budget reduction.

There is no question that every dollar spent by IRS produces many times over direct, immediate cash returns for the Government. On the average, IRS compliance activities produce a direct benefit-cost ratio of at least 10 to 1--for every $1 spent, $10 is produced. Over a 5-year period, the estimated reductions to the IRS budget would total $1.335 billion. This would result in a revenue loss of at least $15 billion--without even taking into account the ripple effect that lowered enforcement has on taxpayer compliance. The net direct loss would exceed $14 billion.

Cuts to IRS' budget are false economy. At a time of budget deficits we should be increasing efforts to attack the underground economy and make our tax system produce the revenue it was designed to raise. With adequate IRS resources and proper use of them, tax collection could be increased markedly with no changes at all in the tax law. We would simply be collecting more revenue from those who should be paying their fair share but aren't. This is not a time for arbitrarily reducing the very work force which can assist in reducing the budget deficit.

All of us are more than willing to work with you to make sure the IRS is operating to its utmost efficiency and effectiveness, but we entreat you to find some method of adequately funding the IRS so that it can do its assigned job--collecting the revenue to support our Government.

Respectfully,

Mortimer M. Caplin
Commissioner 1961-1964

Sheldon S. Cohen
Commissioner 1965-1969

Randolph W. Thrower
Commissioner 1969-1971

Johnnie M. Walters
Commissioner 1971-1973

Donald C. Alexander
Commissioner 1973-1977

Jerome Kurtz
Commissioner 1977-1980

INTERNAL REVENUE SERVICE
HIGHLIGHTS OF THE FY 1987 PRESIDENT'S BUDGET

IRS Budget

The IRS operating budget for FY 1987 totals 95,084 positions (full-time equivalency, excluding 763 reimbursable positions) and $4,097.8 million -- proposed increase of 1,360 positions and $271.7 million over FY 1986.

Fiscal Year 1986

The IRS appropriation, as approved by the Congress in the Continuing Resolution (P.L. 99-190), totals 86,774 positions and $3,642.8 million. Adjustments are proposed through a program supplemental and a reduction (sequestering of funds) as follows:

(1) Program Suplemental: 6,950 positions and $340 million:

- restore the effectiveness of tax processing (process tax returns accurately, issue refunds timely, maintain tax accounts through improved taxpayer correspondence and adjustment capability) 5,558 positions and $140.2 million;

- improve responsiveness to the public (expand taxpayer service) 670 positions and $40.8 million;

- strengthen tax enforcement (examine tax returns, collect unpaid taxes, secure delinquent returns, match information documents, process currency and cash transaction reports, settle administrative appeals, litigate tax cases) 722 positions and $116.8 million;

- meet costs to stay in business (rent of space, employee relocation expenses, toll-free telephone circuitry) $42.2 million.

(2) Reduction under Gramm - Rudman - Hollings: $156.6 million.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm - Rudman - Hollings), P.L. 99-177, requires reductions, through sequestering of funds already approved, of $11.7 billion governmentwide --

with reductions of 4.9% to defense and 4.3% to domestic spending. Under this act, the IRS operating budget is being cut by $156.6 million (4.3%). IRS expects that the reduction can be achieved by cutting administrative and support costs (supplies, office equipment, contracts, etc.), and selected ADP and systems modernization expenditures. It is expected that direct tax filing operations (tax return processing, taxpayer service) and direct revenue-producing programs will not be curtailed.

The revised level for FY 1986, with the above adjustments, is 93,724 positions and $3,826.2 million for four operating appropriations.

Fiscal Year 1987

In keeping with the Administration's goal of reducing the federal budget deficit and in recognition of the need to collect tax revenues which are owed under current law, the IRS proposes an appropriation level of 95,084 positions and $4,097.8 million -- an increase of 1,360 positions and $271.6 million as follows:

- increase examination of tax returns by adding 2,500 positions and $94 million each year over the next three years, for a revenue gain of $10 billion (FY 1987 - 1991);

- expand document matching with emphasis on correcting erroneous taxpayer identification numbers and follow-up on returns with apparent underreported income, with additional revenue collected of $167 million in FY 1987 (795 positions and $21 million);

- expedite resolution of tax shelter cases backlogged in administrative appeal and tax litigation, thus accelerating collection of revenues by $600 million in FY 1987 (465 positions and $20.6 million);

- continue implementation of ADP and systems modernization initiatives begun in prior years to enhance tax enforcement and tax processing (82 positions and $51.8 million).

Within the overall budget of 95,084 positions and $4,097.8 million, the Internal Revenue Service will:

- collect some $800 billion in tax revenues (net after refunds); $38 billion will result from direct enforcement of the tax laws (i.e., examining tax returns, collecting unpaid taxes, securing delinquent returns, and matching information reports);

- process 180 million tax returns and issue 80 million refunds, including three million additional returns which result from higher employment;

- assist 65 million taxpayers through direct assistance, including toll-free telephone service and taxpayer education;

- continue to augment examination of domestic corporations having international activity.

IRS Operating Accounts - Resource Summary

	Average Positions	Amount (millions)
FY 1985 Appropriation	92,259	$ 3,574.1
FY 1986 Continuing Resolution Adjusted by:	86,774	$ 3,642.8
Sequestering of funds required by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)	--	-$ 156.6
Supplemental Proposed:		
Restore effectiveness of tax processing	+ 5,558	+$ 140.2
Improve responsiveness to the public	+ 670	+$ 40.8
Strengthen tax enforcement	+ 722	+$ 116.8
Meet costs to stay in business	--	+$ 42.2
Proposed FY 1986 Level	93,724	$ 3,826.2
FY 1987 Adjustments:		
Mandatory cost and workload increases	+ 628	+$ 307.0
Nonrecurring costs	- 3,110	-$ 223.2
ADP program increases	+ 82	+$ 51.8

	Average Positions	Amount (millions)
Revenue initiative	+ 2,500	+$ 94.4
Tax shelter initiative	+ 465	+$ 20.6
Document matching initiative	+ 795	+$ 21.0
FY 1987 Budget Request	95,084	$ 4,097.8
Difference, FY 1987 compared to the FY 1986 proposed level	+ 1,360	+$ 271.6

IRS Operating and Payment Accounts (FY 1987)

Salaries and Expenses: $ 95.1 million, up $ 5.2 million
Processing Tax Returns: $1,262.9 million, up $ 49.1 million
Examination and Appeals: $1,603.2 million, up $176.0 million
Investigation, Collection and Taxpayer Service: $1,136.6 million, up $ 41.3 million

Total, IRS Operating Accounts: $4,097.8 million, up $271.7 million

In addition to operating costs, funds are also included in the President's budget to:

- pay credits to individuals who earn less than $11,000 ($1,228 million, down $55 million);
- pay interest on refunds of IRS collections ($1,473 million, down $29 million);
- repay Puerto Rico for taxes collected ($245 million, up $10.5 million). This outlay account is subject to sequestering under P.L. 99-177; ($10.5 million is being cut in FY 1986);
- redeem real property when advantageous to cover delinquent taxes ($10 million authority, no increase or decrease in FY 1987).

Total, IRS Payment Accounts: $2,946.0 million, down $ 73.5 million

Grand Total: $7,043.8 million, up $198.2 million

D. A. O'Brien
PM:PFR:F:B
2-4-86

IRS GRAMM-RUDMAN CUTS FOR FISCAL YEAR 1986

Internal Revenue Service				
Refunding internal revenue collections, interest (15-45-0904 -X-1-908-A; 20-0904)				
401(C) Authority	0	0	0	0
Outlays	0	0	0	0
Salaries and expenses (15-45-0911 -X-1-803-A; 20-0911)				
Budget Authority	94,000	94,000	94,000	4,042
Outlays	79,900	79,900	79,900	3,436
Processing tax returns and executive direction (15-45-0912 -X-1-803-A; 20-0912)				
Budget Authority	1,065,000	1,065,000	1,065,000	45,795
Outlays	852,000	852,000	852,000	36,636
Examinations and appeals (15-45-0913 -X-1-803-A; 20-0913)				
Budget Authority	1,419,451	1,419,451	1,419,451	61,036
Outlays	1,334,284	1,334,284	1,334,284	57,374
Investigation, collection, and taxpayer service (15-45-0914 -X-1-803-A; 20-0914)				
Budget Authority	1,064,325	1,064,325	1,064,325	45,766
Outlays	979,734	979,734	979,734	42,129
Federal tax lien revolving fund (15-45-4413 -X-3-803-A; 20-4413)				
Budget Authority	0	0	0	0
401(C) Authority - Off. Coll.	0	0	0	0
Outlays	0	0	0	0
Internal Revenue Service Total				
Budget Authority	3,642,776	3,642,776	3,642,776	156,639
401(C) Authority	0	0	0	0
401(C) Authority - Off. Coll.	0	0	0	0
Outlays	3,245,918	3,245,918	3,245,918	139,574

Department of the Treasury

Internal Revenue Service
Office of the Commissioner

Data for Record
of Dec 16, Hea

to: Bill Cunningham
Oversight Subcommittee

date: Dec. 10, 1985

Bill:

In response to your request, attached is a breakdown on interest paid on timely filed individual income tax returns. As I mentioned over the telephone, a survey of our Service Centers indicate that approximately 14,000 duplicate returns and 11,000 original returns are still unprocessed.

Because of differences among Service Centers in their definitions of unprocessed or duplicate returns, these numbers should be used with care. I believe they reflect only estimates of the number of returns rather than hard counts.

Tom
Tom

Attachment

RECEIVED
DEC 11 1985
Ways and Means
Subcommittee on Oversight

Tom E. Persky
Assistant to the Commissioner

FOR WEEK ENDING NOVEMBER 29, 1985

WEEKLY

	TOTAL REFUNDS		REFUNDS WITH INTEREST		REFUNDS WITHOUT I
	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
Week Ending	Number	Principal and Interest	Number	Interest	Number
11/30/84	2,012	1,947,400	1,733	100,574	279
11/29/85	6,835	6,012,984	6,551	398,864	284
Difference 84/85	4,823	4,065,584	4,818	298,290	5
% of Change 84/85	239.71%	208.77%	278.02%	296.59%	1.79%

Cumulative to November 29

Cum.	Number	Principal and Interest	Number	Interest *	Number
1984	1,632,379	1,373,345,474	1,484,809	27,739,096	147,570
1985	2,398,370	1,651,363,750	2,[illegible]	43,694,289	188,872
Difference 84/85	765,991	278,018,276	724,689	15,955,193	41,302
% of Change 84/85	46.92%	20.24%	48.81%	57.52%	27.99%

The statistics reflect interest paid on timely filed calendar year Individual Income Tax Returns (Forms 1040, 1040A, 1040EZ) and do not reflect amended (Form 1040X), manual refunds*, fiscal year or prior year (other than 1984) returns.

Column A - Total Number of Timely Filed Original Settlement Refunds Issued
Column B - Total Amount of Refunds Issued (Principal and Interest Combined)
Column C - Total Number of Timely Filed Original Settlement Refunds Issued with Interest.
Column D - Total Amount of Interest Paid on these returns.
Column E - Total Number of Timely Filed Original Settlement Refunds Issued Without Interest (e.g. incomplete returns that we corresponded for additional information).

* As of October 25, 1985 interest paid on manual refunds was $4,773,154 in 1985 compared to $633,357 in 1984. Manual refund data is updated monthly.

1985	Amount	Number
Manual refunds (through 10/25)	$4,773,154	41,222
Computer generated (through 11/29)	$43,694,289	2,209,498
Total	$48,467,443	2,250,720

1984	Amount	Number
Manual refunds (through 10/26)	$633,357	2,927
Computer generated (through 11/30)	$27,739,096	1,484,809
Total	$28,372,453	1,487,736

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COMMISSIONER OF INTERNAL REVENUE
Washington, DC 2022

FOR THE RECORD

DEC 24 1985

RECEIVED

JAN 7 1986

Ways and Means
Subcommittee on Oversight

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
House Ways & Means Committee
1105 Longworth Building
Washington, D.C. 20515

Dear Mr. Chairman:

At your December 16 hearing on our plans for service center operations in 1986, you requested of the Commissioner multiple copies of three items:

- "A Report of Findings to the Internal Revenue Service on the Procedures and Plans to be Utilized for the 1986 Filing Season", by Electronic Data Systems (EDS) Corporation
- "Implementation of EDS Recommendations", a 95 page analysis of the EDS report by an IRS Field Executive Review Group
- "Improving the Returns Processing Activity in the IRS", an IRS Internal Audit report issued November 1, 1985.

A copy of each item is enclosed. Under separate cover, I am forwarding 100 copies of each item to you, as you requested.

With kind regards,

Sincerely,

Tom E. Persky
Assistant to the Commissioner
(Legislative Liaison)

Enclosures

BEST COPY AVAILABLE

A Report of Findings to the
Internal Revenue Service

On the Procedures and Plans to be Utilized for the 1986 Filing Season

EDS
Electronic Data Systems Corporation

Statement of Confidentiality

This report includes data that shall not be disclosed outside the Government and shall not be duplicated, used, or disclosed - in whole or in part - for any purpose other than to evaluate this information. If, however, a contract is awarded to this offeror or quoter as a result of - or in connection with - the submission of this data, the Government shall have the right to duplicate, use, or disclose the data to the extent provided in the resulting contract. This restriction does not limit the Government's rights to use information contained in this data if it is obtained from another source without restriction. The data subject to this restriction are contained in all sheets of this volume.

EDS

Electronic Data Systems Corporation
[illegible]

October 30, 1985

Mr. Roscoe Egger, Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Mr. Egger:

Electronic Data Systems Federal Corporation (EDS) has completed its Phase I review of the IRS procedures and plans for the 1986 filing season. EDS presents this Report of Findings.

EDS would like to thank the numerous IRS staff members for their support and cooperation throughout this review. EDS would particularly like to thank Tom Laycock for his assistance to EDS in facilitating the review effort.

EDS is pleased to have worked with the IRS and looks forward to working with the IRS in the future. If you have any questions concerning the Report of Findings, please do not hesitate to call me or Flynn Bucy at (301) 564-3392.

Sincerely,

Joseph L. Hamrick

Joseph L. Hamrick

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Executive Summary

Electronic Data Systems Corporation (EDS) has completed its survey of the procedures and plans for the 1986 filing season and submits this Report of Findings to the Internal Revenue Service (IRS). Upon the IRS' request, EDS began this survey in September 1985 by forming a team comprised of EDS professionals assembled from around the country whose expertise closely paralleled the hardware, software, and operational environment of the IRS.

Objectives of Survey

EDS' goal was to identify and address areas in which improvements could be made in preparing for the 1986 filing season. To achieve that goal, EDS and the IRS established a three-phased approach which is as follows:

- Phase I consisted of an initial orientation of EDS employees to each functional area within the IRS computer and returns processing structure. This orientation enabled the team to review the current methods utilized in returns processing and to define areas potentially requiring change and, therefore, a detailed evaluation in Phase II.
- Phase II was defined as a detailed study that would focus efforts on high priority targets. These targets are areas or functions that require modification, new techniques, or different procedures to increase the probability of a successful 1986 filing season.
- Phase III was defined as the implementation of the IRS-prioritized changes that were to be identified in Phase II.

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This executive summary presents EDS' approach to accomplishing Phase I as well as the resulting observations, conclusions, and recommendations. Based on mutual agreement, the IRS will coordinate the completion of Phases II and III.

Approach

Phase I covered a three-week period from September 30, 1985 to October 18, 1985. The EDS team members spent eight days at the National Office, two days at the National Computer Center, five total days at three Service Centers, and one day each at a Regional and District Office. The initial data gathered was then reviewed and analyzed. Several additional interviews were conducted and final conclusions and recommendations were developed.

To facilitate data gathering, EDS categorized the returns processing system into five functional areas. These areas are as follows:

- Computer Operations
- Software Applications
- Data Communications
- Workflow
- User Interface

This categorization provided a structure in which to survey the various functions of the returns processing environment. From information gained during its orientation, EDS was able to make the following general observations, conclusions and recommendations.

General Observations

EDS' general observations apply to management and technical practices common to several areas within the IRS returns processing organization.

The current organizational structure does not facilitate effective communications between interdependent groups.

The focus of the individual groups needs to expand to include related groups and to encourage coordination of mutual efforts, priorities, and goals. For

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example, even a minor system change made by a National Office programmer can have a major impact on returns processing procedures at the Service Centers. Similarly, detailed feedback on a job's performance supplied by the Service Center would enable the National Office programmer to analyze and improve the job's efficency. Current communication between these groups appears to be limited to crisis situations. The individual groups are concerned with their contribution to support the mission of the IRS but are not aware of the integration with other groups needed to support the mission.

Management of the computer room in the Service Centers lacks standardization and discipline.

Well-defined procedures do not exist for handling either routine or abnormal situations. As a result, valuable data is often lost and processing is frequently delayed due to erroneous job scheduling and reruns. Many operators are unfamiliar with the new hardware and job run streams, further increasing the chance of a costly mistake. Technical leadership and skilled computer room management is required to remedy these problems and to achieve performance levels consistent with IRS goals for the 1986 filing season.

The data processing chain of command within the IRS hinders and may preclude the teamwork required between dependent groups.

Effective teamwork among the various groups requires an appreciation and understanding of the other groups responsibilities and functions. However, the present environment is more likely to foster an adversarial relationship. Currently, management functions are fragmented and direct responsibility for all data processing activities is not reached until the level of the Deputy Commissioner. This fragmentation hinders the closeness that naturally results when all inter-related functions are managed by one individual. The Deputy Commissioner needs a single point of management and accountability for all data processing functions.

Planned enhancements and changes are not shared in a timely manner with the Service Centers, nor are they fully documented.

The Service Centers need timely and updated information to assess the full impact of changes on the returns processing flow. Joint priority setting and monthly status briefings between the National Office and the Service Centers would increase awareness on both sides and allow simultaneous and mutually beneficial efforts on projects.

The focus of IRS management appears to be on procuring state-of-the-art hardware while equivalent effective emphasis is not placed on achieving the same high level of software and other system components.

Complex system problems can not be solved with additional computer capacity. All components of a system must be integrated to achieve maximum efficiency. Little emphasis is placed by National Office management on the use of efficient coding techniques that could maximize the capacity of the Sperry and IBM hardware. The development of additional statistical reports and management tools could tighten pipeline controls and increase management effectiveness.

Minimal technical training exists for National Office programmers, computer operators, and Resident Programmer Analysts (RPAs).

This lack of training results in lower efficiency and productivity, as well as higher error rates and incidences of reruns.

Conclusions

The EDS team reached four general conclusions regarding the IRS organization and its state of preparedness for the 1986 filing season.

IRS professional staff appear to be highly motivated and results-oriented.

Despite the extremely adverse conditions experienced during the last filing season, the IRS staff maintains its determination to do the best job

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possible given the tools and resources provided. The willingness demonstrated in the staff's cooperation to the EDS team is indicative of their desire for a successful 1986 filing season.

No single point of failure was identified that would cripple returns processing in the 1986 filing season.

The problems identified by various studies will not individually cause poor pipeline performance in the next filing season. However, with any disruptions such as unusually large return volumes, major hardware outages, or workflow quality and quantity deficiencies, these problems could have a compounding negative effect on pipeline performance. Implementing the recommendations from prior studies will not guarantee a successful 1986 filing season. However, if the established problems are ignored, there is a fairly high probability that the 1986 filing season performance will be similar to this year's. The hardware installation problems and initial use of newly converted programs that had a negative impact during the 1985 filing season should not hinder 1986 processing.

Any remaining backlog will negatively impact next year's performance.

A greater effort should be made to eliminate the current backlog so that 1986 processing starts without any carryover of inventory. The difficulties currently being encountered in completing the current backlog will be magnified if 1985 and 1986 returns inventory must be processed simultaneously.

Many aspects of returns processing can be improved that will enhance the 1986 filing season.

EDS presents a list of high priority targets. Many of these issues have been previously identified. Despite the identification of processing concerns by prior studies and task forces, in many cases issues and problems still exist. Significant amounts of resources are currently dedicated to the planning process; however, limited and fragmented emphasis appears to be

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placed on the actual implementation of the solution. Immediate and sustained attention from top management is required to focus proportionate emphasis on both the planning effort and the implementation of solutions. Prompt attention to those areas and correction of the problems with short-term solutions may increase the degree of success achieved in 1986.

General Recommendations

EDS presents the following general recommendations for IRS consideration.

- EDS strongly recommends that the IRS implement those changes identified in prior studies.
- In addition, the IRS should review and implement EDS' recommendations from Phase I, as well as address each of the items listed above in the general observation and conclusion sections.
- Finally, EDS recommends the immediate initiation of Phase II as outlined in the Detailed Workplan volume. EDS is prepared to support the IRS with whatever assistance is required.

The issues outlined in this executive summary are fully discussed in the body of the Report of Findings, along with additional areas of concern and supporting information.

Introduction

This Report of Findings presents Electronic Data Systems Corporation's (EDS) review of procedures and plans for the Internal Revenue Service's (IRS) 1986 filing season. EDS' findings are arranged in this volume as follows:

- Orientation Methodology -- describes in detail the plan that the EDS team followed for this effort. A description is included of the areas targeted for review and associated activities that were performed.

- Observations and Recommendations -- presents the findings of the EDS team during Phase I. Each item is arranged in three parts: current situation, recommendations and the potential benefits that would be derived from making the suggested modifications.

EDS also includes a cross reference to the Detailed Workplan task number. The Detailed Workplan is presented as another volume.

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Orientation Methodology

To establish the format and procedures for the Phase I orientation, EDS initially met with key members of the IRS management at the National Office. Through these discussions, representative IRS locations were chosen with key IRS contact people identified at each site. EDS also received informative documentation on the IRS organizational structure, previous studies, and pipeline flow outlines.

In order to conduct the orientation in the most expeditious manner, given the short timeframe available for Phase I, EDS organized the overall IRS operations into five functional review areas. These areas and their established objectives are as follows:

- o Computer Operations--Review computer center operations procedures and media management and any planned changes for processing the 1986 filing season.
- o Software Applications--Review overall job flow, data base structure, coding, and testing procedures and any planned changes in the maintenance and execution of software used in returns processing for the 1986 filing season.
- o Data Communications--Review data communications configurations, performance, network control procedures, and any planned changes for the 1986 filing season.

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- Workflow--Review procedures and any planned changes in the returns processing pipeline for the 1986 filing season.

- User Interface--Review the user communications procedures and any planned changes for the 1986 filing season.

Considering each functional area, EDS identified skilled technicians from its staff and assigned the team members according to their skills.

EDS gained an understanding of the 1986 filing season through information provided by IRS personnel. This knowledge was obtained during tours of facilities, group meetings with IRS management and staff, and individual interviews. Throughout Phase I, EDS was impressed with the high level of cooperation by all IRS staff members. This cooperation enhanced EDS' ability to gain details as well as the requisite overview of IRS returns processing. In this section, EDS presents the Phase I activities chart, a graphic showing the EDS team members by functional area assignment and site visited, and a matrix of the interviews conducted between IRS and EDS personnel.

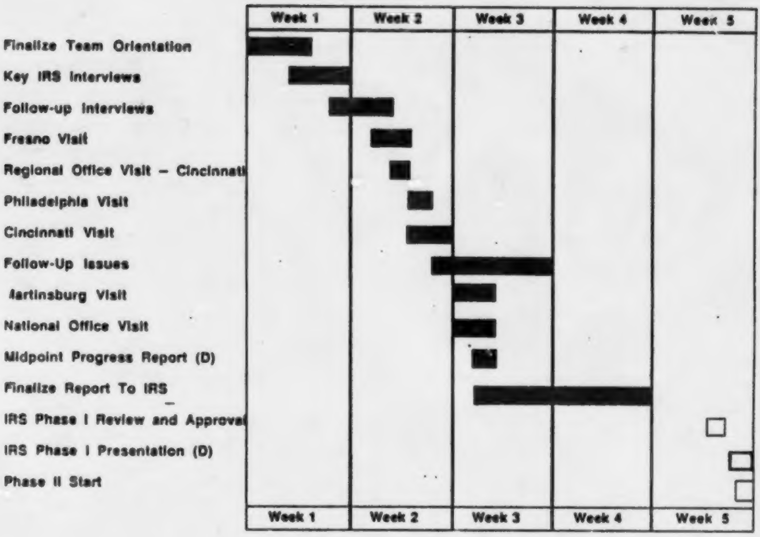
PHASE I ACTIVITIES

EDS presents the following chart, "Phase I Activities," indicating each task undertaken by the EDS team. The chart shows the timeframe allocated as well as the status of each task. EDS also includes task descriptions that outline the activities occurring during each task.

During their orientation, EDS team members visited two Service Centers--Cincinnati and Fresno. These two sites were chosen because they represented the extremes in returns volume. Two team members also visited the Philadelphia Service Center. In addition, EDS visited two regional offices--Cincinnati and Philadelphia--as well as the National Office and the National Computer Center.

EDS submitted a Mid-Point Progress Report on October 8, 1985, that identified the offices visited, functional areas studied, and a general description of the data gathered to date. EDS identifies the Mid-Point Progress Report as a deliverable, as are this Report of Findings and the Detailed Workplan.

PHASE I ACTIVITIES



(D) = Deliverable Product

PHASE I TASK DESCRIPTIONS

Finalize Team Orientation (Completed): Selected IRS management staff provided the EDS team members with an overview of the IRS returns processing procedures. The overview included the IRS organizational structure, current hardware and software, and the predicted processing volumes.

Key IRS Interviews (Completed): EDS team members met with designated IRS staff members to discuss specifics within each functional area. EDS team members were assigned to IRS staff according to matching functional areas of expertise within each organization. EDS defined the five functional areas as computer operations, software applications, data communications, workflow analysis, and user interfaces.

Follow-up Interviews (Completed): EDS and designated IRS staff completed additional interviews necessary to gather further information on returns processing.

Fresno Visit (Completed): The EDS team members traveled to the IRS Service Center in Fresno, California, to review both current and planned procedures, as well as the hardware and software to be utilized at this site during the 1986 filing season. EDS team members obtained information and documentation from the IRS staff on the operations. This documentation included the Service Center's floor plan, permanent and seasonal staffing volumes, hardware configurations, and examples of management reports.

Regional Office Visit--Cincinnati (Completed): EDS team members traveled to the IRS Cincinnati Regional Office and met with IRS management staff to review current procedures and plans for 1986.

Philadelphia Visit (Completed): EDS team members traveled to Philadelphia to meet with IRS management and review the District Office's and Service Center's current procedures and plans for 1986.

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Cincinnati Visit (Completed): The EDS team traveled to the Cincinnati Service Center and reviewed current procedures, workflow, and hardware and software plans for 1986. Each EDS team member met with the designated IRS staff responsible for the specific functional area.

Follow-up Issues (Completed): EDS team members contacted IRS management personnel to clarify information received and to gather further details for Phase I.

Martinsburg Visit (Completed): EDS team members traveled to the National Computer Center (NCC) in Martinsburg to review the operational procedures at this site. EDS team members met with IRS management to gather information and clarify concepts and plans for the 1986 filing season.

National Office Visit (Completed): EDS team members from the computer operations, software applications, and workflow areas visited the National Office to review the system development procedures and interview key management staff.

Mid-Point Progress Report (Completed) (D): EDS delivered a written report detailing the progress made toward completion of Phase I. The report identified offices visited, functional areas surveyed, and a general description of data gathered.

IRS Phase I Presentation (Completed) (D): EDS delivered a preliminary oral report of Phase I of the IRS returns processing procedures. The report identified the areas surveyed, the materials gathered, the principal offices visited, and areas that need further review in Phase II. The Detailed Workplan sets forth an outline of Phase II activities and includes a description of the statement of work for Phase II.

Finalize Report to IRS (Completed) (D): EDS team members prepared the Phase I Report of Findings, a comprehensive written report of Phase I activities, observations, recommendations, and Detailed Workplan for Phase II. They also discussed with IRS management any remaining issues or points needing clarification.

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IRS Phase I Review and Approval **(To Be Completed):** IRS management staff review of EDS' Phase I Report of Findings and authorize initiation of the Phase II detailed study.

Phase II Start **(To Be Determined):** Upon IRS approval and selection, a designated team begins a detailed study of the IRS returns processing procedures in preparation for the 1986 filing season.

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EDS TEAM MEMBERS

The tasks identified on the Phase I Activity Chart were completed by the EDS team. EDS carefully selected the members of this team for their technical skills and qualifications as well as their previous experience in conducting studies for EDS customers.

The team consisted of industrial engineers familiar with workflow measurement and simplification techniques, hardware specialists fully versed in Sperry/Univac systems, and software application technicians knowledgable in the development and implementation of large-scale claims processing systems. The following chart, "EDS Team Activities," lists the name, the functional area of responsibility, and the IRS sites visited for each member of the team.

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EDS TEAM ACTIVITIES

	FUNCTIONAL AREA	FRESNO SERVICE CENTER	CINCINNATI SERVICE CENTER	CINCINNATI REGIONAL OFFICE	PHILADELPHIA SERVICE CENTER	PHILADELPHIA DISTRICT OFFICE	NATIONAL OFFICE	MARTINSBURG
BOB ANDERSON	D	√	√				√	√
JIM CAFFREY	D						√	√
EMILEY CLEVELAND	S	√	√				√	√
JACK ESHELMAN	W	√	√				√	
BRUCE GESSEL	S	√	√				√	√
JOAN GROSSMAN	D	√	√				√	√
JOE HAMRICK	U			√	√	√	√	
DORRY KEE	W	√	√				√	
ED KOWALSKI	D	√	√				√	√
GEORGE SIBLEY	U			√	√	√	√	
JOHN STRUNK	C	√	√				√	√
ED TSE	S	√	√				√	√
JOE WEWERKA	W	√	√				√	
GERRY WILSON	D		√				√	√
VAN YEDLA	W	√	√					
JOE YOUNG	U						√	

D = COMPUTER OPERATIONS
S = SOFTWARE APPLICATIONS
C = DATA COMMUNICATIONS
W = WORKFLOW
U = USER INTERFACE

√ = Completed

INTERVIEWS

During Phase I, EDS team members met with more than 50 members of the IRS staff to gain information and clarifications concerning the overall returns processing. EDS provides the following matrix that depicts the interviews held between IRS staff members and EDS team members. EDS staff spoke with many personnel at the various sites and has listed those IRS staff members with whom the most time was spent. Again, EDS appreciates the cooperation from each IRS staff member and their assistance in providing information.

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IRS/EDS INTERVIEWS

IRS STAFF	EDS TEAM															
	B. Anderson	J. Caffrey	E. Cleveland	J. Eshelman	B. Gessel	J. Grossman	J. Hamrick	D. Kee	E. Kowalski	G. Sibley	J. Strunk	E. Tse	J. Wewerka	G. Wilson	V. Yedla	J. Young
M. Allen	X		X	X	X	X		X	X		X	X	X		X	
M. Bigelow	X				X	X					X	X				
C. Bowman											X					
P. Britton	X				X	X						X				
B. Brown	X					X					X					
M. Bunten				X	X	X		X				X	X			
M. Carmichael	X				X	X						X				
R. Carver				X				X					X			
J. Cloonan							X			X						
G. Coles.				X				X					X			
B. Crezee					X	X		X				X	X			
L. Cummings	X	X	X	X	X	X		X	X			X	X			
E. DeFranco	X				X	X						X				
G. Dingos				X	X	X		X				X	X			
C. Eades				X	X	X		X				X	X			
J. Fazenbaker	X	X	X		X	X			X		X	X		X		
B. Floyd					X	X										
S. Goldberg							X			X						
J. Hallman							X			X						
C. Hardy	X				X	X					X					
B. Hess	X	X	X		X	X					X	X		X		X
B. Hill	X		X		X	X			X		X	X				
W. Hutton	X		X	X	X	X			X			X	X			
J. Jardinerie	X	X			X	X		X				X				
C. Jones					X		X	X		X						

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IRS/EDS INTERVIEWS

EDS TEAM

IRS STAFF	B. Anderson	J. Caffrey	E. Cleveland	J. Eshelman	B. Gessel	J. Grossman	J. Hamrick	U. Kee	E. Kowalski	G. Sibley	J. Strunk	E. Tse	J. Hewerka	G. Wilson	V. Yedla	J. Young
J. Kennelly				X									X			
C. Kotowicz												X				
T. Laycock							X	X		X			X			X
T. Lucas	X		X		X	X					X					
A. Mallinger	X	X	X		X	X			X		X	X		X		
R. Marsh								X					X			
D. Mellilo				X	X	X		X				X	X			
P. Middleton	X			X	X	X			X		X	X	X	X	X	
B. Miller																
E. Moriarty				X									X			
D. Mote					X	X						X				
B. Murphy	X				X	X										
F. Perdue													X			
B. Pitt	X		X	X	X	X		X	X		X	X	X		X	
T. Polivka	X			X	X	X		X	X			X	X			
F. Ramos				X				X					X			
B. Reinhart	X	X	X	X	X	X		X	X		X	X	X	X	X	X
D. Roy	X	X	X	X	X	X		X	X		X	X	X	X	X	
J. Rupert	X		X	X	X	X		X	X			X	X			
P. Ruttle	X		X	X	X	X	X	X	X	X	X	X	X	X	X	
R. Sella				X									X			
R. Seidman							X			X	X					
H. Simpson	X	X	X	X	X	X		X	X		X	X	X			
P. Smith					X	X										

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IRS/EDS INTERVIEWS

IRS STAFF	B. Anderson	J. Caffrey	E. Cleveland	J. Eshelman	B. Gessel	J. Grossman	J. Hamrick	D. Kee	E. Kowalski	G. Sibley	J. Strunk	E. Tse	J. Wewerka	G. Wilson	V. Yedla	J. Young
R. Smith				X									X			
T. Smith		X														
S. Spretz											X					
L. Stoll					X	X						X				
W. Thomas	X		X	X	X	X		X	X		X	X	X		X	
E. Trippe	X		X		X	X						X				

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Observations and Recommendations

With the cooperation of the IRS staff, the EDS team has gathered and assimilated information for the successful completion of Phase I. EDS presents the general observations, conclusions, and recommendations stated in the executive summary and strongly recommends their review and resolution. EDS highlights the key points within each selection.

General Observations

EDS' general observations apply to management and technical practices common to several areas within the IRS returns processing organization.

The current organizational structure does not facilitate effective communications between interdependent groups.

The focus of the individual groups needs to expand to include related groups and to encourage coordination of mutual efforts, priorities, and goals. For example, even a minor system change made by a National Office programmer can have a major impact on returns processing procedures at the Service Centers. Similarly, detailed feedback on a job's performance supplied by the Service Center would enable the National Office programmer to analyze and improve the job's efficency. Current communication between these groups appears to be limited to crisis situations. The individual groups are concerned with their contribution to support the mission of the IRS but are not aware of the integration with other groups needed to support the mission.

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Management of the computer room in the Service Centers lacks standardization and discipline.

Well-defined procedures do not exist for handling either routine or abnormal situations. As a result, valuable data is often lost and processing is frequently delayed due to erroneous job scheduling and reruns. Many operators are unfamiliar with the new hardware and job run streams, further increasing the chance of a costly mistake. Technical leadership and skilled computer room management is required to remedy these problems and to achieve performance levels consistent with IRS goals for the 1986 filing season.

The data processing chain of command within the IRS hinders and may preclude the teamwork required between dependent groups.

Effective teamwork among the various groups requires an appreciation and understanding of the other groups responsibilities and functions. However, the present environment is more likely to foster an adversarial relationship. Currently, management functions are fragmented and direct responsibility for all data processing activities is not reached until the level of the Deputy Commissioner. This fragmentation hinders the closeness that naturally results when all inter-related functions are managed by one individual. The Deputy Commissioner needs a single point of management and accountability for all data processing functions.

Planned .enhancements and changes are not shared in a timely manner with the Service Centers, nor are they fully documented.

The Service Centers need timely and updated information to assess the full impact of changes on the returns processing flow. Joint priority setting and monthly status briefings between the National Office and the Service Centers would increase awareness on both sides and allow simultaneous and mutually beneficial efforts on projects.

The focus of IRS management appears to be on procuring state-of-the-art hardware while equivalent effective emphasis is not placed on achieving the same high level of software and other system components.

Complex system problems can not be solved with additional computer capacity. All components of a system must be integrated to achieve maximum efficiency. Little emphasis is placed by National Office management on the use of efficient coding techniques that could maximize the capacity of the Sperry and IBM hardware. The development of additional statistical reports and management tools could tighten pipeline controls and increase management effectiveness.

Minimal technical training exists for National Office programmers, computer operators, and Resident Programmer Analysts (RPAs).

This lack of training results in lower efficiency and productivity, as well as higher error rates and incidences of reruns.

Conclusions

The EDS team reached four general conclusions regarding the IRS organization and its state of preparedness for the 1986 filing season.

IRS professional staff appear to be highly motivated and results-oriented.

Despite the extremely adverse conditions experienced during the last filing season, the IRS staff maintains its determination to do the best job possible given the tools and resources provided. The willingness demonstrated in the staff's cooperation to the EDS team is indicative of their desire for a successful 1986 filing season.

No single point of failure was identified that would cripple returns processing in the 1986 filing season.

The problems identified by various studies will not individually cause poor pipeline performance in the next filing season. However, with any disruptions such as unusually large return volumes, major hardware outages, or workflow quality and quantity deficiencies, these problems could have a compounding negative effect on pipeline performance. Implementing the recommendations from prior studies will not guarantee a successful 1986 filing season. However, if the established problems are ignored, there is a fairly high probability that the 1986 filing season performance will be similar to this year's. The hardware installation problems and initial use of newly converted programs that had a negative impact during the 1985 filing season should not hinder 1986 processing.

Any remaining backlog will negatively impact next year's performance.

A greater effort should be made to eliminate the current backlog so that 1986 processing starts without any carryover of inventory. The difficulties currently being encountered in completing the current backlog will be magnified if 1985 and 1986 returns inventory must be processed simultaneously.

Many aspects of returns processing can be improved that will enhance the 1986 filing season.

EDS presents a list of high priority targets. Many of these issues have been previously identified. Despite the identification of processing concerns by prior studies and task forces, in many cases issues and problems still exist. Significant amounts of resources are currently dedicated to the planning process; however, limited and fragmented emphasis appears to be placed on the actual implementation of the solution. Immediate and sustained attention from top management is required to focus proportionate emphasis on both the planning effort and the implementation of solutions. Prompt attention to those areas and correction of the problems with short-term solutions may increase the degree of success achieved in 1986.

General Recommendations

EDS presents the following general recommendations for IRS consideration.

- EDS strongly recommends that the IRS implement those changes identified in prior studies.

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- In addition, the IRS should review and implement EDS' recommendations from Phase I, as well as address each of the items listed above in the general observation and conclusion sections.
- Finally, EDS recommends the immediate initiation of Phase II as outlined in the Detailed Workplan volume. EDS is prepared to support the IRS with whatever assistance is required.

The issues outlined in this executive summary are fully discussed in the body of the Report of Findings, along with additional areas of concern and supporting information.

Specific Recommendations

In addition to these general suggestions, specific recommendations have been identified in Phase I. These findings have been divided into the following five functional areas:

- Computer Operations
- Software Applications
- Data Communications
- Workflow
- User Interface

The Phase I findings have been further divided into three time periods--short-term, mid-term, and long-term.

EDS' recommendations of the five functional areas are not intended to offer finalized solutions to IRS but to highlight items that were observed during the orientation phase. The implementation of the results of the analysis will have a positive impact on the 1986 filing season. In addition, EDS further states that all prior recommendations made by previous task forces and study teams be carefully evaluated for their feasibility and benefit, and be closely monitored throughout their implementation.

The EDS team outlines Phase I findings on the pages following the "Phase II GANTT Chart." EDS includes a copy of this chart from the Detailed Workplan to provide a reference to facilitate understanding of the activities.

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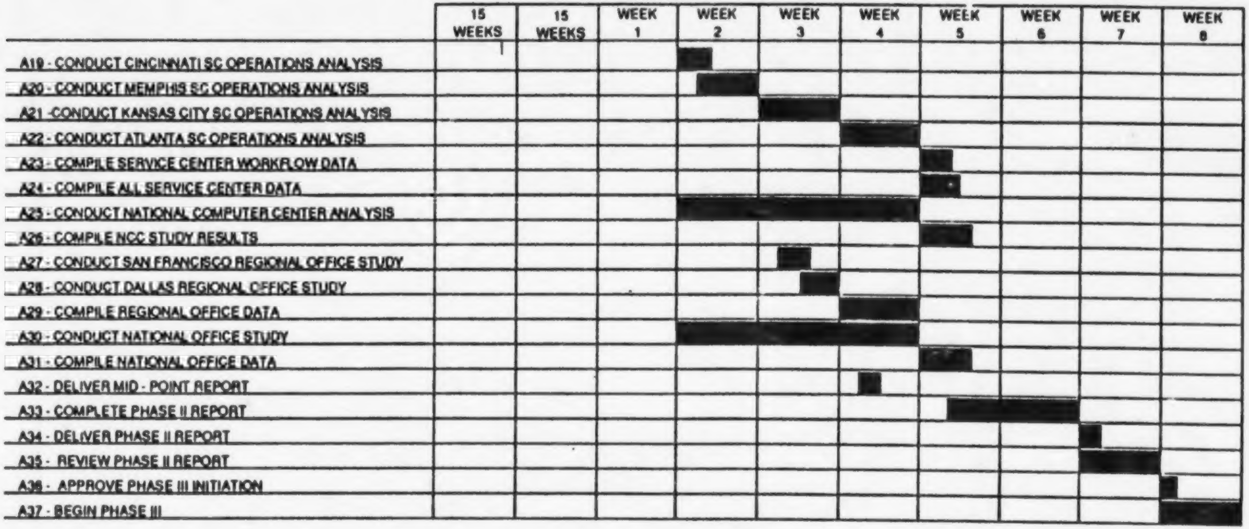
PHASE II GANTT CHART

	15 WEEKS	15 WEEKS	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8
A01 - IMPLEMENT CHANGES	■									
A02 - EVALUATE CHANGES		■								
A03 - IDENTIFY PHASE II TEAM MEMBERS			■							
A04 - BEGIN PHASE II			■							
A05 - PREPARE PHASE II MATERIALS			■							
A06 - COMPLETE DETAILED STUDY OUTLINES			■							
A07 - CONDUCT TEAM ORIENTATION			■							
A08 - INITIATE SERVICE CENTER ANALYSIS										
A09 - CONDUCT FRESNO SC WORKFLOW ANALYSIS				■	■					
A10 - CONDUCT CINCINNATI SC WORKFLOW ANALYSIS						■				
A11 - CONDUCT PHILADELPHIA SC WORKFLOW ANALYSIS				■	■	■				
A12 - COMPILE SERVICE CENTER WORKFLOW DATA							■			
A13 - CONDUCT FRESNO SC OPERATIONS ANALYSIS				■						
A14 - CONDUCT OGDEN SC OPERATIONS ANALYSIS					■					
A15 - CONDUCT AUSTIN SC OPERATIONS ANALYSIS						■				
A16 - CONDUCT PHILADELPHIA SC OPERATIONS ANALYSIS				■						
A17 - CONDUCT BROOKHAVEN SC OPERATIONS ANALYSIS					■					
A18 - CONDUCT ANDOVER SC OPERATIONS ANALYSIS						■				

PHASE II GANTT CHART

(continued)



COMPUTER OPERATIONS

EDS presents the following observations for IRS consideration. EDS recommends that each of these findings be addressed before the 1986 filing season in order to streamline returns processing. Below, EDS itemizes the findings and indicates their respective page numbers.

Page

Short-term

Standardize File Save Procedures 22
Evaluate Tape Processing Environment 23
Define Tools for Scheduling Support. 24
Standardize Disk Retention Periods 25
Develop Multi-Step Job Execution Criteria. 26
Define Training Program. 27
Develop Dynamic Dump Procedures. 28
Analyze Checkpoint Restart Procedures. 29
Determine Effectiveness of Run Balance and Controls. 30
Determine Effective Tape Use 31
Determine Schedule Responsiveness. 32
Review Hardware Configuration. 33

Mid-term

Develop Disaster Recovery Plan 34

Long-term

Standardize the Data Processing Environment. 35

EDS arranges its discussion of each of the findings into three parts: current situation, recommendations, and benefits. EDS also relates each of the findings to the Detailed Workplan by providing the relevant task number.

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STANDARDIZE FILE SAVE PROCEDURES (Short-term)

Current Situation: The file save procedures at the Service Centers are not executed consistently. In addition, massive saves are done on a daily as well as a weekly basis.

Recommendations: The Computer Performance Evaluation (CPE) group, in conjunction with the Service Center operations staff, should determine the proper file save techniques and timeframes so that the optimum combination of timing and frequency of these jobs can be implemented at all Service Centers. The streamlining of data file saves within each cycle should lessen the demand for massive daily and weekly saves.

Benefits: Efficient and effective file saves would increase disk space utilization and reduce the amount of Central Processing Unit (CPU) time involved in file management activities.

Detailed Workplan Task Number: A02

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EVALUATE TAPE PROCESSING ENVIRONMENT (Short-term)

Current Situation: The tape processing environment is not uniform throughout the Service Centers. Tape drive cleaning and Sperry maintenance are not performed on a regular basis. The tape management system, STAR, is not utilized to its full potential by the Service Center operations staff. In addition, STAR is not installed on every machine, although one tape library supplies tapes to each machine.

Recommendations: The Service Centers should install STAR on all machines and fully utilize the features it provides to instill a discipline to the tape processing environment. The Hardware Division should develop a media evaluation criteria to reduce the potential of failure of scratch pool tapes. Service Center management should re-emphasize the importance of tape and tape drive cleaning.

Benefits: STAR offers active data file protection from being inadvertently destroyed. Historic information captured for each volume can be analyzed for usage, cleaning, and the amount of data written on each. The amount of data on each tape can be analyzed to determine which tape files could be converted to disk. Additionally, output tape assignment becomes a simpler process with less operator intervention.

Detailed Workplan Task Number: A02

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DEFINE TOOLS FOR SCHEDULING SUPPORT (Short-term)

Current Situation: Scheduling flow is not represented in a clear and concise manner. The operations staff is not aware of the full impact of aborts and cannot determine the optimal job mix.

Recommendations: The National Office should provide to all Service Centers a job flow matrix with dependencies, external requirements, abort condition effect on the schedule, restart entry points, and balancing checkpoints. A vendor community search should be conducted to identify the availability of an automated scheduling package.

Benefits: The standardized scheduling matrix would provide the Service Centers with a tool to guide the operations staff in processing the workload. This would also aid the National Office staff in problem resolution by not having to deal with the scheduling peculiarities of each Service Center. This matrix would also provide operations with better information for job management.

Detailed Workplan Task Number: A02

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STANDARDIZE DISK RETENTION PERIODS (Short-term)

Current Situation:	At the Service Centers visited, disk file retention criteria for nondata base files varied.
Recommendations:	Inventory all disk files used at the Service Centers and determine the retention criteria for each file. Since all Service Centers perform identical computer processing, this information should then be used to establish a disk space management method to be used at all Service Centers. Utility programs may have to be developed or purchased to aid in the space management process.
Benefits:	Proper utilization of disk space would make available more disk space for intermediate files and sort work files. This would improve the efficiency of the processing at Service Centers and increase the flow of returns through the pipeline.
Detailed Workplan Task Number:	A02

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DEVELOP MULTI-STEP JOB EXECUTION CRITERIA (Short-term)

Current Situation:	Most jobs have only one step. This causes excessive operator intervention and tape handling. Many jobs also have excessive messages requiring operator responses. These items introduce unnecessary delays into production processing.
Recommendations:	Jobs should be logically joined, using disks for intermediate files. Further, each job should be started automatically when the prior job completes successfully. Each message requiring operator responses should be reviewed to determine its necessity.
Benefits:	This method of job execution would cause less delay in mounting of tapes and in starting and executing jobs. It would also decrease operator involvement and increase the throughput of the batch process.

Detailed Workplan
Task Number: A02

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DEFINE TRAINING PROGRAM (Short-term)

Current Situation:	Operators and schedulers have little formal training on the Sperry systems and related software applications. Further, there is no formal training or communications to develop back-up or replacement personnel.
Recommendations:	All Service Centers should study operations and operations support methods. Findings should be analyzed and condensed into a standardized procedure taking the "best" elements from each Service Center. Specific areas to study are scheduling, tape management, disk management, transmittal procedures, overall National Office and National Computer Center interface with Service Centers, and system documentation.
Benefits:	The benefits in improving these areas include quicker recovery from aborts through job knowledge and standardized procedures, better job mix, development of back-up personnel, and better controls over runs and run balancing through standardized methods.
Detailed Workplan Task Number:	A02

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DEVELOP DYNAMIC DUMP PROCEDURES (Short-term)

Current Situation: The . Service Center processing is divided into three primarily, separate week day processing periods:

- Real-time Processing
- Data Base Dumps
- Batch Processing

There are occasions where batch processing may need to exceed the allotted time slot due to unexpected errors or heavy volume. It is therefore desirable to be as efficient as possible in the batch processing window.

Recommendations: Dynamic dumps should be implemented so they may be performed in parallel with real-time processing. This should allow the batch window to expand without a negative impact on real-time.

Benefits: The use of dynamic dumps would eliminate the requirement for data base dump processing. The additional processing time gained would allow returns to be processed through the pipeline faster.

Detailed Workplan Task Number: A02

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ANALYZE CHECKPOINT RESTART PROCEDURES (Short-term)

Current Situation:	Checkpoints take excessive time to complete and to restart after an abort. Computer center personnel are having difficulty restarting jobs with a checkpoint.
Recommendations:	Changes are planned in current procedures and some may have been implemented. Comments received from Service Center employees indicate that the current situation must be reviewed. The IRS should examine the execution of checkpoint restarts to determine if files used are assigned and catalogued correctly. Each use of checkpoints should be reviewed to determine that the checkpoint is not taken more frequently than each hour and is documented for operations to utilize this feature.
Benefits:	This would increase the speed of the checkpointing function in a run by not requiring the copying of temporarily catalogued files at each job step and not taking checkpoints too frequently. Documentation for operations will allow them to be more effective in processing reruns.
Detailed Workplan Task Number:	A02

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DETERMINE EFFECTIVENESS OF RUN BALANCE AND CONTROLS (Short-term)

Current Situation: Most run balancing is done manually by Service Center personnel. Also, most runs consist of only one step, thus requiring operations to frequently record and compare totals.

Recommendations: A detailed evaluation of all run balancing procedures and run-to-run controls should be conducted. Methods of implementing standard balancing and run-to-run control procedures for all cycles should be developed.

Benefits: Automation of the balancing procedures would significantly improve the throughput of the pipeline at the Service Center. It would also ensure the accuracy of run results.

Detailed Workplan
Task Number: A02

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DETERMINE EFFECTIVE TAPE USE (Short-term)

Current Situation: There is no concentrated effort to convert small files from tape to disk. Unnecessary tape handling places excessive demands on the operations staff. Conversion to the use of disk storage for small files would allow the operations staff to be more efficient in processing the workload.

Recommendations: The Computer Performance Evaluation (CPE) group should review files currently on tape for conversion to disk.

Benefits: This conversion would reduce tape handling and operator intervention, enable the batch window to be shortened, and increase the real-time availability.

Detailed Workplan Task Number: A02

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DETERMINE SCHEDULE RESPONSIVENESS (Short-term)

Current Situation: The master file update process at the National Computer Center (NCC) provides results to the Service Center on a week-delay basis.

Recommendations: The NCC should review the schedule of posting transactions to the master file to determine if current cut-off can be adjusted to provide the Service Centers with more timely turnaround of updates.

Benefits: A more timely turnaround would provide for fewer transactions in the pipeline, a reduced workload at the Service Centers, and would reduce the potential of losing control of tapes waiting to be processed.

Detailed Workplan Task Number: A02

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REVIEW HARDWARE CONFIGURATION (Short-term)

Current Situation:	The performance evaluations conducted at the Service Centers deal only with Central Processing Unit (CPU) utilization.
Recommendations:	The IRS should review current hardware configuration in conjunction with usage data to identify potential bottlenecks. The review should also include media selection.
Benefits:	An efficient configuration would result in increased hardware utilization and more rapid processing of returns through the pipeline.
Detailed Workplan Task Number:	A02

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DEVELOP DISASTER RECOVERY PLAN (Mid-term)

Current Situation: There is no comprehensive IRS Automated Data Processing (ADP) disaster recovery plan.

Recommendation: The IRS should analyze the current production environment, identify critical applications, and develop a disaster recovery plan. Once the plan is developed it should be exercised to evaluate its effectiveness.

Benefits: A plan to deal with disaster situations would be available to the higher monitoring authorities for review and to IRS staff who would deal with the situation. Valuable time would not be spent determining which corrective action to take. In addition, a disaster recovery plan would limit the exposure of the pipeline to extended downtime.

Detailed Workplan Task Number: A13 - A22, A25

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STANDARDIZE THE DATA PROCESSING ENVIRONMENT (Long-term)

Current Situation: Operating practices at the IRS computer centers are not standard, but are accomplished by many operating system modifications. These modifications require an enormous amount of resources to support.

Recommendation: The IRS should adopt an operating philosophy to migrate from a highly customized environment to a standardized industry-based philosophy of data processing. Only as a last resort should code changes be made to the operating system.

Benefits: The IRS would be in a position to take advantage of the solutions developed by the vendor community. This would lessen the need to have a large staff with the sole responsibility of maintaining the operating system. Upgrades to hardware and operating system software would be smoother and less time consuming. A variety of solutions would be available to solve problems and the IRS would be able to share development costs with the industry. Implementation of solutions would be more expeditious and less costly.

Detailed Workplan Task Number: A13 - A22, A25

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SOFTWARE APPLICATIONS

EDS lists the following 16 areas for change within the software applications arena. The EDS team categorizes nine of these as short-term problems due to their potential for correction in time for the 1986 filing season. Five of the areas require solutions that EDS estimates could be implemented by the end of 1986. These areas are classified as mid-term concerns. The remaining two areas are categorized as long-term changes that should be undertaken as important enhancements to overall personnel development and system design.

Page

Short-term

Establish Stricter Testing Procedures. 37
Supply 24-Hour Programmer Support. 39
Provide Job-Specific Programmer Training 40
Evaluate Terminal Usage by Programmers 42
Define Periodic Transmittal Release Schedule 43
Provide Abort-Related Service Center Training. 44
Utilize Current Inventory Analysis Tools 45
Analyze Presence and Effectiveness of DIS Edits. 46
Optimize Current ECL Run streams 47

Mid-term

Provide Technical Programmer Training. 48
Develop User-Defined Inventory Analysis Tools. 49
Evaluate Options to Enhance DIS Edits. 50
Form ECL Optimization Group. 51
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Provide Systems Design Programmer Training 53
Design Integrated Returns Processing System. 54

EDS arranges its discussion of each of the findings into three parts: current situation, recommendations, and benefits. EDS also relates each of the findings to the Detailed Workplan by providing the relevant task number.

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ESTABLISH STRICTER TESTING PROCEDURES (Short-term)

Current Situation: Insufficient emphasis is placed on following thorough testing procedures in the National Office. The absence of strict testing standards results in inaccurate program and Executive Control Language (ECL) transmittals. Service Center personnel report that transmittals must be backed out several times a week because they contain errors that cause aborts. The effort entailed in handling the aborts constitutes a major disruption in the workflow of the Service Centers.

Recommendation: Although National Office personnel dispute the percentage of transmittals that contain errors, immediate steps should be taken to ensure that all transmittals released to the Service Centers are thoroughly tested. Programmers should be required to hold walk-throughs attended by experienced and back-up programmers. The purpose of these walk-throughs should be to review user specifications, analyze design of the solution and evaluate compiled code, test data, and implementation strategy. Standard testing and transmittal procedures should be established and strictly enforced, especially during the filing season. The System Acceptability Testing (SAT) group should remain active throughout the filing season, when the need for accurate transmittals is the greatest. The group's activities should include running a daily system test that executes all new program and ECL changes.

Benefits: Stricter and more thorough testing procedures would result in the accuracy of transmittals increasing to an acceptable level. Processing cycles would execute more quickly. The

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chance of error and delay due to aborts, reruns and restarts would decrease. Frequent system tests would identify many of the transmittal errors and allow them to be corrected before they degrade Service Center operations.

Detailed Workplan
Task Number: A02

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SUPPLY 24-HOUR PROGRAMMER SUPPORT (Short-term)

Current Situation: Many transmittals must be backed out by the Service Center operations staff because of lack of information or support needed to resolve problems. When aborts occur during the processing cycle, there is usually inadequate programmer support available at the National Office. The cycle is delayed until a knowledgable programmer is located and briefed. The documentation that accompanies the transmittals is often insufficient and does not fully explain the change or its impact. Therefore, it cannot be depended on to provide pertinent information.

Recommendations: The National Office should supply 24-hour onsite programmer support until the accuracy of transmittals increases to an acceptable level. The onsite programmer should be briefed on all transmittals that will be effective that day. A list of responsible programmers and procedures to follow in case of problems should also be provided. Standards should be established and enforced to ensure the accuracy and usefulness of the documentation written at the National Office to accompany transmittals.

Benefits: Continuous programmer support would increase the probability of prompt problem analysis and resolution. The overall accuracy of returns processing would increase since changes would be implemented in an accurate and timely manner. The requirement to correct transmittal errors immediately after they occur, instead of the next day or week, would increase the programmers' accountability and motivation to ensure the accuracy of the transmittal.

Detailed Workplan Task Number: A02

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PROVIDE JOB-SPECIFIC PROGRAMMER TRAINING (Short-term)

Current Situation: Training of National Office programmers is insufficient in job-specific functions such as detailed knowledge of the area of primary responsibility, interdependent programs such as those that share files with the primary program, and factors specific to the IRS environment such as Sperry hardware and high volumes of data. Very little training is provided in mapping, dump solving, efficient programming techniques, and the IRS applications. There are few debugging and optimization tools available. There appears to be no effort to cross-train programmers in related areas, resulting in dangerously low levels of back-up and knowledge of interdependent programs.

Recommendations: All inexperienced programmers and their back-ups should be intensively trained in their primary areas of responsibility by senior programmers who have worked in those areas. Functional overviews of all programs affecting the primary program should be provided. Factors such as Sperry hardware and high volumes of data that could affect programming techniques should be fully explained. Debugging and optimization tools determined to be of value in the IRS environment should be obtained. Training should be provided in their capabilities and applicability. The training material and system documentation currently available in the National Office should be evaluated for its accuracy, relevance, and clarity. Additional technical and application material should be obtained from vendors or written by IRS experts. Training should be provided in the content, organization and use of this material.

Benefits: Increased knowledge of the primary area of responsibility and dependent programs would enable each programmer to devise more accurate and timely solutions to applications software problems. Programs and files would be designed more efficiently with expanded applications knowledge and specific Sperry considerations in mind. Problem resolution would be faster and more efficient if dump-solving techniques were taught and debugging tools provided.

Detailed Workplan

Task Number: A02

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EVALUATE TERMINAL USAGE BY PROGRAMMERS (Short-term)

Current Situation: Limitations on terminal usage and the low ratio of terminals to programmers appear to decrease National Office programmer productivity. The programmer is automatically signed off the terminal after one hour of use. At that time, any work in progress is purged and must be recreated.

Recommendations: Current restrictions on the amount of continuous terminal time allowed and the number of terminals supplied should be evaluated. Since a programmer can sign back on to the same terminal immediately after being purged, the one-hour limitation may not be accomplishing its goal and should be lengthened or discontinued. A cost benefit analysis should be performed to determine if increased programmer productivity exceeds the costs of additional terminals. If the value of increased productivity exceeds the cost of the terminals, more terminals should be obtained.

Benefits: Programmer productivity would increase since less time would be wasted waiting for a terminal or trying to work around the one-hour limitation. The span of time required to test a change would decrease, thereby increasing both the number and accuracy of transmittals released to the Service Centers.

Detailed Workplan Task Number: A02

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DEFINE PERIODIC TRANSMITTAL RELEASE SCHEDULE (Short-term)

Current Situation: Transmittals are released to the Service Centers daily or sometimes even multiple times in a day. The Service Centers are often not aware of the changes being implemented since they cannot keep track of the constant flow of transmittals. This lack of awareness results in poor preparation for changes that require modifications in the cycle, such as additions or deletions of jobs or files.

Recommendations: The timing of transmittal releases should be reviewed to determine if changes can be implemented on a regularly scheduled basis. Only highly critical changes should be implemented at a non-scheduled time. All other transmittals should occur on schedule and with adequate advance notice to all affected groups.

Benefits: The Service Centers would maintain control and awareness of the changes affecting the processing cycle. An orderly release of changes would prevent the Service Centers from operating in a constant state of flux. In addition, an audit trail of changes would be easier to maintain. This audit trail would be used to document and monitor the implementation of changes in the case of a problem that requires cycle reruns.

Detailed Workplan Task Number: A02

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PROVIDE ABORT-RELATED SERVICE CENTER TRAINING (Short-term)

Current Situation: The Resident Programmer Analysts (RPAs) and the National Office programmers cannot communicate effectively when resolving processing aborts. There are three major causes of this inability to communicate. First, the RPAs are not trained in basic problem resolution techniques that would enable them to provide the necessary information to the programmers. Second, the operators do not follow proper procedures when an abort occurs. Valuable data such as dumps, Executive Control Language (ECL), and messages is lost. Third, the Service Center do not have an acceptable method of transmitting dumps to the National Office.

Recommendations: Procedures should be defined for RPAs to follow when an abort occurs. The procedures should include initial diagnosis of the problem and capture of all vital data. If the RPA cannot resolve the problem, the RPA should pass all necessary information to the National Office. Operators should also be trained in procedures to follow when an abort occurs. These procedures should include saving ECL and dumps for subsequent examination by the RPA and National Office programmers. An efficient method of transmitting dumps and other critical data to the National Office should be developed.

Benefits: Establishment and enforcement of procedures designed to capture all relevant data when an abort occurs would lead to more immediate problem resolution and less frequent transmittal back-outs. RPAs and operators would contribute more effectively to the resolution of problems. Transmission of file data and dumps would allow the National Office programmers to spend less time attempting to recreate the situation that caused the abort, and more time actually resolving the problem.

Detailed Workplan Task Number: A02

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UTILIZE CURRENT INVENTORY ANALYSIS TOOLS (Short-term)

Current Situation: Each Service Center has defined immediate reduction of the unpostable inventory as one of its top priorities, yet the most productive methods for accomplishing this critical task are not being utilized in all Centers. The Internal Audit Group at the Cincinnati Service Center developed a module that generates a variety of reports providing both summary information and detailed data that aid management and staff in resolving the unpostables. These reports have enabled Cincinnati to significantly reduce its inventory in a highly efficient manner.

Recommendations: The module developed by the Cincinnati Service Center should be installed in any Service Center not yet using this tool. In addition, programming resources should be dedicated to the implementation of any realistic enhancements that would increase the usefulness of the reports.

Benefits: Use of the inventory analysis module would enable the Service Centers to reduce their unpostable inventories as rapidly and efficiently as possible, thus avoiding the negative compounding effect that would result if the inventories are not eliminated by the start of the 1986 filing season. The number of Service Center personnel required to work the inventory would be reduced, thereby freeing those personnel for other critical tasks.

Detailed Workplan Task Number: A02

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ANALYZE PRESENCE AND EFFECTIVENESS OF DIS EDITS (Short-term)

Current Situation: The high error rate for keyed data output from Distributed Input System (DIS) indicates that validity edits on the IV-Phase machine are either deactivated or very minimal. The lack of thorough front-end editing and key verification encourages the data entry staff to concentrate on the quantity rather than the quality of their work. A serious repercussion of inadequate quality review is the high error rate manifested in the Error Resolution System (ERS) and unpostable inventories. The explanations offered for the presence of so many errors in DIS data are that increased editing would substantially degrade IV-Phase response time and that key verification is not performed in many cases.

Recommendations: National Office programmers should work with Service Center personnel to determine which, if any, of the edits are active. Functioning edits should be evaluated for their operational efficiency and effectiveness in decreasing the error rate. Reports should be analyzed to identify the most frequently occurring errors. The programmers should determine the feasibility of installing edits to prevent or reduce those errors. Additional edits should be activated only after the magnitude of their effect on response time is carefully measured and evaluated. More thorough key verification should be performed.

Benefits: Enhancement of DIS edits, if implemented with minimal degradation of response time, would increase the accuracy of data input to the Generalized Mainline Framework (GMF) without decreasing the throughput of the data entry staff. This greater degree of accuracy would reduce the error rate and subsequent unpostable inventories.

Detailed Workplan
Task Number: A02

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OPTIMIZE CURRENT ECL RUN STREAMS (Short-term)

Current Situation: Some Executive Control Language (ECL) run streams are not fully optimized in regard to sort space and other disk file assignments, including no initial reserve space on many @ASG statements and very large reserves on @ASG statements for small sorts. In addition, current ECL run streams use R$ core statements intermittantly, even for some large sorts.

Recommendations: Technicians knowledgeable in run time improvement and throughput techniques should review and modify each ECL run stream to achieve maximum optimization of computer resources.

Benefits: The optimization of ECL run streams would allow more throughput in all Service Centers due to wiser use of current resources.

Detailed Workplan Task Number: A02

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PROVIDE TECHNICAL PROGRAMMER TRAINING (Mid-term)

Current Situation: National Office training is insufficient in general technical areas such as structured COBOL, efficiency considerations, data base access techniques and testing strategies. It appears that minimal follow-up technical instruction is provided after the initial training period. This lack of continuing education impedes the technical development of the programmers and may lead to inefficient coding and testing techniques.

Recommendations: The technical material and training courses currently available for National Office programmers should be evaluated for their accuracy and relevance. Additional technical material should be obtained from vendors or written by the IRS. A complete curriculum should be developed to help programmers develop technical proficiency. Management should supervise the scheduling of classes, encourage attendance, evaluate the results, and if necessary, adjust the curriculum to maximize the benefits to be gained from the investment of time and resources.

Benefits: Participation by the data processing staff in a comprehensive training program would develop skilled programmers that are well-versed in state-of-the-art techniques, tools, and knowledge. Exposure to new and improved techniques would allow the staff to be more effective in devising and applying solutions to meet the needs of the IRS. This greater effectiveness would maximize the performance of the hardware and software. Increased employee morale and motivation would be an intangible but highly beneficial result of a well-structured training program.

Detailed Workplan
Task Number: A30

DEVELOP USER-DEFINED INVENTORY ANALYSIS TOOLS (Mid-term)

Current Situation: A major concern of all Service Centers is the high unpostable inventory. The inability to effectively analyze this inventory hinders efforts to reduce the volume of unpostables, and occupies resources that could be used in other areas to assist in the timely processing of returns. Most Service Centers are not able to work their inventories as efficiently as possible because analysis tools and reports are not available.

Recommendations: Service Center personnel and National Office programmers should determine the best method to monitor and reduce the unpostable inventory. One possible analysis method that should be studied is the development of parameter-driven reports to display unpostable data in user-defined sequences. Another possibility that should be evaluated is an online database that management and staff could access to inquire into the inventory by using appropriate data elements as keys.

Benefits: The use of flexible, user-defined inventory analysis tools would allow the Service Centers to manage future unpostable inventories more efficiently. Discovery of patterns in the distribution of errors and possible diagnosis of system-related problems would be expedited.

Detailed Workplan Task Number: A09 - A11, A30

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EVALUATE OPTIONS TO ENHANCE DIS EDITS (Mid-term)

Current Situation: The IV-Phase data entry software appears to perform minimal front-end validity edits on keyed data. The result of this lack of editing is an emphasis on quantity instead of quality which contributes to the high Error Resolution System (ERS) and unpostable inventory.

Recommendations: Service Center personnel and National Office programmers who are knowledgeable in IV-Phase software should evaluate the feasibility of reinstating as many data validity edits as possible without degrading response time. Other areas of study should be the efficiency and degree of optimization of the IV-Phase software, and the possibility that the capacity of the Distributed Input System (DIS) terminals is maximized at the current level of edits and volume of data.

Benefits: Enhanced validity editing of DIS data would allow General Mainline Framework (GMF) processing to be faster and more error-free. The ERS and unpostable inventories would decrease. In addition, the average amount of time required to process a return would decrease since there would be less time spent on error resolution.

Detailed Workplan Task Number: A30

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FORM ECL OPTIMIZATION GROUP (Mid-term)

Current Situation: There is no single organization responsible for reviewing the Executive Control Language (ECL) to ensure efficient resource utilization. The ECL is developed or modified by the programmer, passed to System Acceptability Testing (SAT) for testing, and ultimately transmitted to the Service Centers without optimization or standardization of throughput factors such as sort space assignment and core statement usage.

Recommendations: The Software Division should establish an ECL review group staffed with technicians who are knowledgeable in ECL optimization techniques. The function of this group should be to optimize throughput factors prior to transmittal to the Service Centers.

Benefits: The formation of an ECL optimization group would focus attention on the importance of efficient throughput techniques. The application of these standardized techniques would provide increased processing capabilities and maximized utilization of resources.

Detailed Workplan Task Number: A30

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ANALYZE DATA BASE PARTITIONING (Mid-term)

Current Situation: The Integrated Data Retrieval System (IDRS) data base logical partitioning does not effectively utilize the DMS 1100 (Sperry's data base management system) internal linkage handling. The dynamic nature of the partitioning results in inefficient overflow assignment and unnecessarily high overhead when accessing the data base.

Recommendations: Experienced data base administrators (DBA) should conduct a detailed analysis of the IDRS data base structure to determine optimum use of the linkage handling in multiple areas of DMS 1100. The DBAs should evaluate the benefits of changing the logical partitioning from dynamic to static.

Benefits: More efficient data base access would be achieved with no major program modifications. The high level of Central Processing Unit (CPU) utilization required would decrease.

Detailed Workplan
Task Number: A30

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PROVIDE SYSTEMS DESIGN PROGRAMMER TRAINING (Long-term)

Current Situation: Little training is provided to the National Office programmers in systems design, development and implementation methodologies. Lack of this type of knowledge, when performing major conversions and upgrades, results in flawed system design and inefficient program execution.

Recommendations: The Software and Hardware Divisions should provide thorough training in effective methods of systems design, development and implementation. This long-range training should be provided to senior level programmers and others who would be involved in the planning and execution of major system upgrades and conversions.

Benefits: Timely and thorough training in optimum methods of systems design, development and implementation would enable the National Office programming staff to create and install efficient, maintainable and accurate systems.

Detailed Workplan Task Number: A30

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DESIGN INTEGRATED RETURNS PROCESSING SYSTEM (Long-term)

Current Situation: The returns processing system now in operation is inefficient, fragmented and difficult to maintain.

Recommendations: The IRS should strongly consider the eventual redesign and integration of the entire returns processing system. Development of the new system should utilize advanced data processing methodologies to their fullest advantage with emphasis on structure, efficiency and maintainability. The degree to which the programs are modularized should be carefully evaluated to minimize the overhead required by program linkage while maximizing the ease and accuracy of programming changes.

Benefits: A well-designed returns processing system would streamline and integrate all subsystems that now function separately and inefficiently. Personnel and hardware resources would be utilized to their full capacity due to greater levels of maintainability and efficiency.

Detailed Workplan Task Number: A30

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DATA COMMUNICATIONS

EDS has identified three areas to be addressed within the data communications structure. For the 1986 filing season, EDS recommends that the single points of failure be reviewed and corrected. The two other findings should be completed before the end of 1986. These areas include:

Page

Short-term

Review Service Center's Single Points of Failure 56

Mid-term

Review Implementation of the Upgraded IDRS Equipment 57
Develop Data Communications Plan 58

EDS arranges its discussion of each of the findings into three parts: current situation, recommendations, and benefits. EDS also relates each of the findings to the Detailed Workplan by providing the relevant task number.

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REVIEW SERVICE CENTER'S SINGLE POINTS OF FAILURE (Short-term)

Current Situation: The terminals are connected to the current hardware at each Service Center through a Sperry 9040 central processor acting as a communications processor. These 9040s are also responsible for access security validation as well as providing performance data on the network. Each Service Center has only one 9040 system. If this unit fails the network is down until it is repaired.

Recommendations: Procedures should be drafted that specifically address what is to happen when the Sperry 9040 fails. An existing 9040 system should be located possibly at the National Computer Center system and allocated to act as a backup system for the Service Centers. For the 1986 season, the IRS should minimize the effects of the failure of this critical system.

Benefits: Backup procedures for the 9040 provide reassurance that only minimal incapacity would occur.

Detailed Workplan Task Number: A02

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REVIEW IMPLEMENTATION OF THE UPGRADED IDRS EQUIPMENT (Mid-term)

Current Situation: Many changes have occurred in the IRS communications environment since the communications hardware upgrade RFP was released. With all these changes, there is a good chance that the configuration in the winning proposal will need significant modifications.

Recommendation: The IRS should reevaluate the communications requirements at all of the Service Centers in light of new equipment available. This allows the IRS to optimize the use of newer technology.

Benefits: A review of the communications needs now will minimize the time spent on retrofitting new equipment.

Detailed Workplan Task Number: A09 - A11, A13 - A23, A25

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DEVELOP DATA COMMUNICATIONS PLAN (Mid-term)

Current Situation: There appears to be a lack of overall direction in the data communications area. Thus far, communications happens instead of being planned.

Recommendation: The IRS should develop a data communications strategic plan which addresses not only today's needs but also looks to the future, thus, establishing a framework for growth.

Benefits: Planning for growth allows the IRS to anticipate needs and avoid some of the pitfalls associated with the lengthy government procurement cycle.

Detailed Workplan Task Number: A13 - A23, A25, A30

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WORKFLOW

EDS has identified 12 areas to be addressed that are within or related to the returns processing pipeline. These areas include:

Page

Short-term

Develop and Implement Incentive Programs. 60
Develop and Implement Quality Review Programs 61
Correct Unpostables Problem 62
Analyze Return and Document Control Procedures. 63
Develop Structured Documentation and Communication Mechanisms for Pipeline Problems. 64
Review and Correct User/Data Processing Communication Gap 66
Analyze and Resolve Invalid Notices 67
Prepare Effective User Documentation. 68
Eliminate the Use of Key Production Staff for System Testing. . . 69

Mid-term

Implement Production Management Training. 70
Review and Implement Automation Procedures to Eliminate Extraneous Manual Effort. 71
Evaluate and Implement Procedures for User-Defined Enhancements . 72

EDS arranges its discussion of each of the findings into three parts: current situation, recommendations, and benefits. EDS also relates each of the findings to the Detailed Workplan by providing the relevant task number.

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DEVELOP AND IMPLEMENT INCENTIVE PROGRAMS (Short-term)

Current Situation: The current incentive programs at the Service Centers appear to be inadequate and therefore do not support the objectives of the program. They seem not to be uniformly administered. As a result, there is no evidence that increased production, which is a historically documented effect of any incentive program, occurs in the Service Centers.

Recommendations: To ensure success in meeting the goals and objectives of the incentive program, a uniform methodology of administering the program should be established. This methodology should be consistent, fair, and explained in detail to the employees. The data used in administration of the program should be collected through automated methods. The data should then be subjected to both quality and quantity evaluation criteria.

Benefits: A well-administered incentive program would result in increased production. When matched with a strong quality review program, the IRS would experience fewer errors and higher employee morale.

Detailed Workplan
Task Number: A02

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DEVELOP AND IMPLEMENT QUALITY REVIEW PROGRAMS (Short-term)

Current Situation: There appears to be no widespread, systematic approach to measuring the quality of work processed through the pipeline. There also appears to be no documented knowledge of current quality levels within the pipeline units. The management staff at the Service Centers is highly concerned with integrating quality guidelines is quantity production but have no exacting standards, manual or automated measuring tools, or consistent reporting mechanisms available.

Recommendations: A systematic method of measuring quality of work should be established for all areas in the pipeline. To develop this methodology, management should define "quality" for each area, establish acceptable ranges, develop a schedule to monitor a specific sample size, and construct an employee feedback mechanism. For the data conversion area, an automated system should be designed that not only captures erroneous data but also provides supervisors with daily reports on each individual operator's performance. For the predominantly manual areas such as receipt and control, a corresponding structure should be devised. All quality reports should be shared with upper-level management and feedback given to the area chiefs.

Benefits: A solid quality review program would provide several benefits including increased accuracy of returns processing, reduction in the volume of errors and unpostables, and improved relations with the taxpayer. Another intrinsic benefit to the IRS would be the identification of training needs by this objective measurement tool. The level of employee job satisfaction would be raised. In addition, employees would take more pride in their work.

Detailed Workplan
Task Number: A02

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CORRECT UNPOSTABLES PROBLEM (Short-term)

Current Situation: At the present, the IRS is experiencing record levels of returns that cannot be posted to the master file.

Recommendations: EDS recommends two levels of approach to reducing the current level of unpostables and maintaining a manageable inventory. Short-term, the IRS should devote resources to eliminate the current unpostable inventory by January 1, 1986. While reducing the inventory, logs should be kept to record the reasons for the unpostables and the corrective actions taken by the workers. These logs should be automated if possible. The IRS should compile and analyze the recorded data according to the type of error, point of error origination, as well as the quantity in each error category. Following the compilation of these results, steps should be taken to prevent recurrence of the same errors in the 1986 filing season. These preventive steps should include increased training of seasonal hires in the predominant error categories and in the quality review carried out in each unit. If errors are determined to be caused by system problems such as name-number mismatch, or inappropriate transfer of data, immediate notification to the National Office should occur.

Benefits: Identification and correction of the causes of the unpostable inventory would lessen the chance for their recurrence in the 1986 filing season. Reduction of the inventory would improve public relations and prepare the Service Centers for the next filing season.

Detailed Workplan Task Number: A02

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ANALYZE RETURN AND DOCUMENT CONTROL PROCEDURES (Short-term)

Current Situation: The current return and document control procedures do not establish control of the individual document soon enough in the flow through the pipeline.

Recommendations: To ensure efficient flow and control of documents, the methods for controlling the location of the documents should be reviewed and formalized. Methods should be developed to automate batch activation or receipt log-in as soon as the document enters the site. The IRS should produce reports that indicate the location of each return in the pipeline, thereby eliminating lost blocks.

Benefits: Activation would link the taxpayer social security number and the individual document locator number. Increased control of the individual returns and documents would provide more accurate returns processing. It would also increase management capability in planning staffing needs if inventory in an area exceeded a pre-determined acceptable level.

Detailed Workplan Task Number: A02

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DEVELOP STRUCTURED DOCUMENTATION AND COMMUNICATION MECHANISMS FOR PIPELINE PROBLEMS (Short-term)

Current Situation: There is no effective mechanism for documentation and resolution of user (pipeline) discovered system problems. At each Service Center, problems are verbalized and documented, yet there is often no satisfactory or timely response from the National Office. Also, one Service Center may identify a system problem and inform the National Office, but not until another Service Center contacts either the National Office or the first Service Center regarding the same problem is it discovered that the problem has existed for an extended period of time. Possible short-term solutions are thus not shared to the mutual benefit of all Service Centers.

Recommendations: The IRS should utilize a formal mechanism for recording Service Center problems, acknowledging receipt of the problem information from the National Office, communicating identified problems to all Service Centers, and following up on resolutions to all Service Centers. This could be accomplished by designating a liaison position(s) at each Service Center with a corresponding person(s) at the National Office. The liaison personnel should be knowledgeable of both the returns processing and system aspects of the IRS function. Also, as soon as a problem is identified and communicated to the National Office it should be logged, numbered and prioritized. Priorities should be established according to severity of the problem in terms of volume impact to the pipeline. Daily feedback to the Service Center of progress in problem resolution is imperative, especially during the peak season. Immediate attention should be given to pipeline-oriented system problems.

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Benefits: Formal documentation and prompt resolution of user-identified problems would increase the accuracy and speed of returns processing. There would also be less frustration and less of a feeling of isolation on the part of the Service Centers. This formal communication also improves employee morale.

Detailed Workplan Task Number: A02

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REVIEW AND CORRECT USER/DATA PROCESSING COMMUNICATION GAP (Short-term)

Current Situation: There appears to be an overall concern for the lack of communication between the Service Centers (user) and the National Office. The users are not always informed of actual or planned system changes in time for their reaction and comment. In addition, it seems that priorities are not mutually established by the Service Centers and the National Office.

Recommendations: The IRS should establish an effective, formalized method of exchange between the user and the data processing group. Groups should be established at both the Service Centers and the National Office to meet once a month or more frequently during the filing season and communicate problems, concerns, updates on software changes, and status of system change requests made from the Service Centers.

Benefits: Frequent communication between the user and data processing groups would improve relationships between the groups and would also enhance the overall mission of the IRS by the creation of a unified effort.

Detailed Workplan Task Number: A02

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ANALYZE AND RESOLVE INVALID NOTICES (Short-term)

Current Situation: Taxpayers are receiving notices that they should not have received, that are duplicates, or that contain erroneous information.

Recommendations: Procedures should be reviewed to analyze and resolve the causes of these invalid notices. Methods should be established to verify suspicious notices prior to mailing. Unpostables should be reviewed for the causes of the errors and steps taken to reduce the volume of invalid notices resulting from those unpostables.

Benefits: The resolution of problems concerning invalid notices will have two positive effects: the reduction in handling additional inventory and improvement of the IRS' public image.

Detailed Workplan Task Number: A02

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PREPARE EFFECTIVE USER DOCUMENTATION (Short-term)

Current Situation:	The current user documentation appears limited in scope and does not complement the training effort. The manuals are cumbersome and updates occur frequently, but are not communicated effectively to the necessary people. In addition, some updates are late, thereby causing returns processing errors due to uninformed workers.
Recommendations:	To prepare user documentation that can be used more effectively, the IRS should establish procedures whereby handbooks are reviewed by user groups with feedback provided through appropriate channels. Word processing capabilities should be developed for manual updates. Again, exchange of problems and solutions between users and the data processing group should be implemented.
Benefits:	Effective user documentation and related training would increase productivity, morale, and the general quality of work.
Detailed Workplan Task Number:	A02

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ELIMINATE THE USE OF KEY PRODUCTION STAFF FOR SYSTEM TESTING (Short-term)

Current Situation: During the last filing season, key pipeline staff were allocated to participate in testing of system changes. Service Center staff believes that they were required to provide some of their best production people for system testing during peak periods and that this depletion of resources negatively impacted the pipeline production. The National Office believes that the system testing during peak periods is held to an absolute minimum.

Recommendations: To avoid the use of production resources for system testing, systems acceptance and user testing procedures should be reviewed and test teams, other than pipeline resources, should be utilized. Also, the IRS should develop a method of conducting all testing from the National Office using a test system identical to but scaled-down from the production system. Only emergency testing should occur in the Service Centers during peak filing season. The majority of testing should take place when user involvement can occur to ensure that the change is most effective.

Actual involvement of key production personnel should be investigated and the National Office and the Service Centers should mutually agree on the amount, location, and method of testing. There may or may not be a problem with using production resources, but there appears to be a communications problem between the Service Centers and the National Office concerning this issue.

Benefits: The exclusion of key production staff from direct system testing responsibilities allows the Service Centers to focus on their primary goal of processing returns efficiently and accurately.

Detailed Workplan
Task Number: A02

Use or disclosure of data contained on this sheet is subject to the restrictions on the title page of this proposal or quotation.

IMPLEMENT PRODUCTION MANAGEMENT TRAINING (Mid-term)

Current Situation: The current production management training program is inadequate. There is a limited amount of user training with some training being done after the fact. The managers are not exposed to outside ideas that could generate creativity and progress.

Recommendations: The IRS should devote effort to the training of first line and mid-level management. A consultant should be enlisted to share management strategies on items including reporting mechanisms, problem resolution, employee relations, motivation and stress management.

Benefits: The implementation of improved production management training would increase productivity, morale, and quality of work.

Detailed Workplan
Task Number: A09 - A11

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REVIEW AND IMPLEMENT AUTOMATION PROCEDURES TO ELIMINATE EXTRANEOUS MANUAL EFFORT (Mid-term)

Current Situation:	Many areas of pipeline processing involve totally manual procedures since the current system design offers limited automated processing. There is duplication of effort in that several workers handle each return before it is processed. As an example, the entity number is recorded at least four times.
Recommendations:	Automated procedures to eliminate the manual effort should be reviewed and implemented. All manual procedures should be studied and a specific method to automate pipeline processing should be developed.
Benefits:	The implementation of automated procedures would produce a better quality product with greater throughput.
Detailed Workplan Task Number:	A09 - A11

Use or disclosure of data contained on this sheet is subject to the restrictions on the title page of this proposal or quotation.

EVALUATE AND IMPLEMENT PROCEDURES FOR USER-DEFINED ENHANCEMENTS (Mid-term)

Current Situation: The users of the system have little or no impact on defining system enhancements. This causes extreme frustration and widens the gap between the user and data processing groups. As an example, the system defines the control points for the returns with little regard for the pipeline procedures. In addition, the control points are ill defined and do not show any reporting structure.

Recommendations: The IRS should establish a mechanism by which user and data processing representatives could mutually define the enhancements that make the system more responsive both to the taxpayer and to the user. The IRS should also establish user groups to log and follow-through on the positive changes that smooth out processing.

Benefits Allowing the users to help design and enhance the system increases morale and indirectly increases production.

Detailed Workplan Task Number: A09 - A11

Use or disclosure of data contained on this sheet is subject to the restrictions on the title page of this proposal or quotation.

USER INTERFACE

EDS has identified user interface concerns within each of the other functional areas: computer operations, software applications, data communication, and workflow. Some of these concerns include the gap in verbal and written communications between the Service Centers and the National Office, lack of effective Service Center input on system enhancements, and lack of advance knowledge of system changes and plans. The user would be better served if all data processing functions, including the computer operations personnel at the Service Centers, reported to a single assistant commissioner. This would provide more effective management and the proper emphasis would be placed on each interdependent group.

Executive Summary
Report of the EDS Findings

The observations and findings of the EDS team are divided into five major categories: Computer Operations, Software Applications, Data Communications, Workflow, and User Interface.

Without going into a detailed itemization of the recommenations under each category (see attachment), we have attempted to summarize the findings for each of the five major categories below:

A. Computer Operations

Greater standardization of all operational procedures and functions is required in the Computer Branch environment. This extends across library management, tape and disk retention, scheduling approaches and techniques, run to run balancing, and the use of system utilities.

Detailed guidance in each of these areas needs to be developed (where necessary) and enforced. In order to complement this effort, a comprehensive training program needs to be developed and implemented for operations personnel. The success of both of these efforts is in large part dependent, however, on a more uniform organization structure from Center to Center, and a standardization of roles within the operations of the various Computer Branches.

B. Software Applications

Tighter configuration management techniques and procedures need to be applied in the development, testing, and implementation of application software. Particular items of concern include: stricter adherence to testing procedures (both programmer and systems testing); tighter control and oversight of the entire transmittal process to ensure higher quality products and less confusion for operations; and, promoting further optimization of system and program design, job control language, coding, and data base utilization. These objectives can be accomplished through comprehensive training and standardization efforts. The implementation process must be further monitored on a full-time basis (24 hour support) to ensure timely and effective support where corrective action is necessary.

C. Data Communications

The IRS should review its data communications environment both in terms of the functionality of the current front-end processor (9040) and its replacement (CRS), and also in relation to a longer term communications strategy. A long-term data communications plan would establish a framework for future growth and systems integration, instead of allowing communications needs to be satisfied haphazardly and on a piecemeal basis.

D. Workflow

A greater effort should be made to eliminate the current backlogs to allow 1986 processing to start without carryover of inventory. Additionally, the development of Quality Review and Incentive programs would help ensure greater effectiveness and efficiency in pipeline processing. While the IRS should reanalyze the flow and control of documents through the pipeline, and provide further automation where necessary to provide more effective control, no single point of failure has been identified which in itself could cripple returns processing for the 1986 filing season.

E. User Interface

Better communication between the data processing and user organizations should be established at the Service Center and National levels. The following areas should be explored to this end: (1) reducing the communication gap through a more formal problem reporting and feedback mechanism both in the Field and at the National Office; (2) preparing more effective user documentation by allowing more involvement by users in the development of such material and any related training; (3) allowing for more user input on the overall systems development and enhancement processes; and (4) assessing to what effect the existing organizational structure may impede better communications and relations between the data processing and user environments.

General

Many of the findings and recommendations contained herein have been previously identified and documented by various internal IRS task forces, studies, and action plans. In spite of this, many of these issues remain unaddressed. IRS should place strong emphasis upon ensuring that those internal recommendations, as well as the additional findings contained in this study are acted upon in a timely manner to ensure both a successful 1986 filing season and a minimal risk of revisiting some of its recent problems in future years.

Standardize File Save Procedures *
Evaluate Tape Processing Environment *
Define Tools for Scheduling Support *
Standardize Disk Retention Periods *
Develop Multi-Step Job Execution Criteria*
Define Training Program *
Develop Dynamic Dump Procedures
Analyze Checkpoint Restart Procedures *
Determine Effectiveness of Run Balance and Controls *
Determine Effective Tape Use *
Determine Schedule Responsiveness
Review Hardware Configuration *
Develop Disaster Recovery Plan *
Standardize the Data Processing Environment *

Items with * have been identified and addressed either in SCPS Action Plan, Service Center Computer Branch Study, Pipeline Data Integrity and Controls Task Force, or are part of Training effort currently underway.

Software Applications

Establish Stricter Testing Procedures
Supply 24-Hour Programmer Support *
Provide Job-Specific Programmer Training *
Evaluate Terminal Usage by Programmers
Define Periodic Transmittal Release Schedule
Provide Abort-Related Service Center Training *
Utilize Current Inventory Analysis Tools
Analyze Presence and Effectiveness of DIS Edits
Optimize Current ECL Run Streams *
Provide Technical Programmer Training *
Develop User-Defined Inventory Analysis Tools
Evaluate Options to Enhance DIS Edits
Form ECL Optimization Group *
Analyze Data Base Partitioning *
Provide Systems Design Programmer Training
Design Integrated Returns Processing System

Data Communications 3

Review Service Center's Single Points of Failure
Review Implementation of the Upgraded IDRS Equipment
Develop Data Communications Plan

Workflow 12

Develop and Implement Incentive Programs *
Develop and Implement Quality Review Programs *
Correct Unpostables Problem *
Analyze Return and Document Control Procedures *
Develop Structured Documentation and Communication Mechanisms for Pipeline Problems *
Review and Correct User/Data Processing Communication Gap *
Analyze and Resolve Invalid Notices *
Prepare Effective User Documentation
Eliminate the Use of Key Production Staff for System Testing
Implement Production Management Training *
Review and Implement Automation Procedures to Eliminate Extraneous Manual Effort *
Evaluate and Implement Procedures for User-Defined Enhancements *

User Interface (no specific recommendations)

Internal Revenue Service
memorandum

date DEC 11 [illegible]

to Associate Commissioner (Data Processing)

from: Theron Polivka
Chairperson, Field Executive Review Group

subject: Implementation of EDS Recommendations

Mitch Premis, John Johnson, and I appreciate the opportunity to participate with our National Office colleagues in a review of the import of the Electronic Data Systems, Inc., computer environment recommendations. We hoped to provide you this immediate feedback not only on the relationship of the EDS Study to current data processing projects, but other related plans for filing season operational improvements. As a group, we will remain in close coordination with your staff in the coming weeks.

Attached is an analysis entitled "IRS Tax Processing System Improvements," which we believe you will find useful. It displays the EDS recommendations and all ongoing Computer Services and Returns Processing projects which relate either generically or specifically to the EDS Study. The analysis goes beyond the constraints of the EDS recommendations, however, so that a general review of filing season improvements as represented by all of the current projects may be available to you and the Deputy Commissioner. We believe that you will be as pleasantly surprised as ourselves that so many projects were already underway to assure that this filing season is a most successful one in terms of quality, effectiveness, and taxpayer needs. We did find that there is one significant void -- that is the question of data communication management responsibility. In the short time available to us, we were unable to determine a precise organizational focal point for data communication management or strategic planning. As a result, we, at least initially, implicitly agree with the EDS finding that data communication management is largely an unaddressed issue within the Service. With that functional exception, we are pleased that so many individual project areas are being addressed.

We recommend to you that this project list which we have prepared (which is, to our knowledge, the only existing comprehensive multifunctional list) be maintained and accompanied by a monitoring mechanism in your office. The staffing for this monitoring effort should be provided jointly by Mr. Curtis and Mrs. Burton's offices with the lead responsibility as you see fit. Secondly, we believe that the Command Center idea fostered by Computer Services needs to be multifunctionalized and raised organizationally to your own level. This Command Center could truly be a problem identification and resolution office for you in the coming months. We urge you to staff it with the best analysts available from Computer Services and Returns and Information Processing and require a strong organizational commitment and to report to you personally.

We were most impressed with the quality and dedication of all of the personnel we have interviewed this week. Their knowledges and abilities and commitment were most impressive and we return to the Field with greater confidence in the coming filing season. The task force as a group and individually will continue to meet with representatives of Mr. Laycock and Mr. Goldberg's offices to select given priority projects for intensive quality analysis in the coming weeks. If you have specific subjects to which our attention should be directed, we will all be happy to respond.

Theron C. Polivka

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Attachment

IRS TAX PROCESSING SYSTEM IMPROVEMENTS

The attached document is a compendium of recommendations resulting from a number of recent reviews of IRS's Tax Processing System. These are categorized as follows:

1) Electronic Data Systems Corporation (EDS) Report of Findings to the IRS on the Procedures and Plans to be utilized for the 1986 Filing Season (approximately 63 action/projects, many already implemented);

2) 1986 Filing Season Plan Project report by the Deputy Assistant Commissioner (Returns and Information Processing) (11 action/projects to implement);

3) Other improvements from the SCRS Action Plan developed as a result of numerous reviews, task forces, studies, trip reports, etc. recommended by various internal and external sources (193 action/projects, most already implemented); and

4) Other improvements from the DIS/GMF Data and Systems Controls Task Force (63 action/projects, most already implemented).

IRS Tax Processing System Improvements

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I. Improvements recommended by EDS

    1. Computer Operations

    2. Software Applications

    3. Data Communications

    4. Workflow

    5. User Interface

II. Other Improvement Projects from the 1986 Filing Season Plan Project

III. Other Improvements from the SCRS Action Plan

    1. Staffing
    2. Training
    3. Hardware
    4. Systems Software
    5. Applications Software
    6. Documentation
    7. Miscellaneous

IV. Other Improvements from the DIS/GMF Data and Systems Controls Task Force

    1. Computer Room

    2. Transcription

    3. Miscellaneous

    4. RPS

    5. Data Controls

I. Improvements recommended by Electronic Data Systems Corporation (EDS)

1. Computer Operations
2. Software Applications
3. Data Communications
4. Workflow
5. User Interface

The following 46 recommendations were presented in a report of findings submitted by EDS to the Internal Revenue Service as a result of their review of IRS's procedures and plans for the 1986 filing season. The IRS had already identified and begun work on the 32 related system improvement projects, listed to the right of the recommendations.

EDS Recommendation	Brief Description	Project Action Taken/Being Taken	Responsible Organization/Person	Target Date
1. Computer Operations				
1.1 Standardize File Save Procedures	The Computer Performance Evaluation (CPE) group, in conjunction with the Service Center operations staff, should determine the proper file save techniques and timeframes so that the optimum combinations of timing and frequency of these jobs can be implemented at all Service Centers.	Various memoranda have been issued and the RPA handbooks updated to reflect standardized runstreams and file save procedures. In addition, RPA's and DBA's have been provided training in file save procedures.	D:C:S	Completed
1.2 Evaluate Tape Processing Environment	The Service Center should install STAR on all machines and fully utilize the features it provides to instill a discipline to the tape processing environment.			
1.3 Define tools for Scheduling Support	National Office should provide to all Service Centers a job flow matrix with dependencies, external requirements, abort condition effect on the schedule, restart entry points, and balancing checkpoints.	(a) Pilot(s) of automated scheduling systems planned subsequent to 1986 Filing Season. (b) In the interim, FFX has been enhanced to provide some primitive scheduling. Additional training has also been provided to RPA's, and scheduling personnel.	D:C:U	(a) 7/86 (b) completed
1.4 Standardize Disk Retention Period	Inventory all disk files used at the Service Centers and determine the the retention criteria for each file	Application development areas will periodically review specified retention periods. Additional training in data base support and support and mass-storage management management has been provided to DBA's.	D:C:S D:C:M	Continuous
1.5 Develop Multi-Step job Execution Criteria	Jobs should be logically joined, using disks for intermediate files.	Application areas will review runstreams for effective packaging and elimination of interdependency where possible.	D:C:S D:C:M	Continuous

1. Computer Operations (con't)

	EDS Recommendation	Brief Description	Project Action Taken/Being Taken	Responsible Organization/Person	Target Date
1.6	Define training program	Specific areas to study are scheduling, tape management, disk management, transmittal procedures, overall National Computer Center interface with Service Center, and system documentation.	(a) Comprehensive training programs have been establishes and initiated in these areas. (b) There are further plans to rewrite all standards and procedures for these areas during the upcoming year. (See SCRS Action Plan, Section 2 for details.)	PM:HR:T D:C:U Service Centers	(a) 3/86 (b) 12/86
1.7	Develop Dynamic Dump Procedures	Dynamic dumps should be implemented so they may be performed in paralled with real-time processing. This should allow the batch window to expand without a negative impact on real-time.	Dynamic dumps have been explored and are not recommended. A new utility has been developed to analyze the system log file and print tapes used for dumps. This is available to all Service Centers.	D:C:S:S	Completed
1.8	Analyze checkpoint restart procedures	The IRS should examine the execution of checkpoint restarts to determine if files used are assigned and catalogued correctly.	Programmer Handbook, Volume V, and SIB U-134 address this issue.	D:C:S D:C:M D:C:S:S	Complete
1.9	Determine effectiveness of Run Balance and Controls	A detailed evaluation of all run balancing procedures and run-to-run controls should be conducted.	(a) new-balancing procedures are under development for pipeline (CMF,DIS) runs. IDRS balancing procedures are being reviewed and documented in the COH's. (b) Further improvements including system-wide automated balancing are planned.	D:C:S D:C:M D:C:U	(a) 1/86 (b) 12/86

	EDS Recommendation	Brief Description	Project Action Taken/Being Taken	Responsible Organization/Person	Target Date
1.	Computer Operations (con't)				
1.10	Determine effective tape use	The Computer Performance Evaluation (CPE) group should review files currently on tape for conversion to disk.	The CMF rewrite took this into consideration: Files manager is performing further analysis to eliminate unnecessary tape usage.	D:C:S	Continuous
1.11	Determine schedule responsiveness	The NCC should review the schedule of posting transactions to the master file to determine if current cut-off can be adjusted to provide the Service Centers with more timely turnaround of updates.	Disagree. Adjusting cycles would not change volume. One week turnaround for updates is not the primary problem. We will not pursue this recommendation at the present time.	D:C:U	Completed
1.12	Review Hardware Configuration	The IRS should review current hardware configuration in conjunction with usage data to identify potential bottlenecks. The review should also include media selection.	This is an on-going effort. The recent SCRS upgrade was initiated because of the capacity shootfall projected.	D:C:U	Completed
1.13	Develop Diaster Recovery Plan	The IRS should analyze the current production environment, identify critical applications, and develop a disaster recovery plan.	Disaster Recovery procedures will be developed	D:C D:R	6/86
1.14	Standardize the Data Processing Environment	The IRS should adopt an operating philosophy to migrate from a highly customized environment to a standardized industry-based philosophy of data processing.			

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EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
2. Software Applications				
2.1 Establish Stricter Testing Procedures	Programmers should be required to hold walk-throughs attended by experienced and back-up programmers.	Programmers testing standards already exist. Programmers are required to walk-through and test all changes.	D:C:S D:C:M	Continuous
2.2 Supply 24-hour Programmer Support	The National Office should supply 24-hour onsite programmer support until the accuracy of transmittals increases to an acceptable level.	A 24-hour Command Post has been established at the National Office to facilitate support and problem resolution.	D:C:O	1/17/86
2.3 Provide Job-Specific Programmer Training	All inexperienced programmers and their back-ups should be intensively trained in their primary areas of responsibility by senior programmers who have worked in those areas.		D:C:S D:C:M	
2.4 Evaluate Terminal Usage By Programmers	Since a programmer can sign back on to the same terminal immediately after being purged, the one-hour limitation may not be accomplishing its goal and should be lengthened or discontinued.	A recent study conducted by CAP GEMINI indicated that there was an adequate ratio of terminals to programmers. Strategic Initiative IMS-5 is addressing programmer productivity on a longer term basis.	D:C	Complete
2.5 Define Periodic Transmittal Release Schedule	Only highly critical changes should be implemented at a non-scheduled time.	A study group has been formed to review the transmittal process and recommend improvements.	D:C:S	1/16/86
2.6 Provide Abort - Related Service Center Training	The procedures should include initial diagnosis of the problem and capture of all vital data.	Classes have been conducted in problem resolution and integrated recovery.	D:C:S:S	Continuous

(Cont.) 2. Software Applications

EDS Recommendation		Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
2.7	Utilize Current Inventory Analysis Tools	The module developed by the Cincinnati Service Center should be installed in any Service Center not yet using this tool.	(a) During September, we transmitted a program to all Service Centers which would summarize their ending inventory. This program provided two (2) managerial reports, one would provide a total of unpostables by a specific criteria (i.e. tax class or document code), while the other would highlight a specific type of unpostable (i.e. payment or refund). (b) Various GUF reports and listings have been revised to provide for additional new data, to include summary pages on reports and to include numerous editorial-type changes. These changes will assist the Service Centers in monitoring their GUF workload, to eliminate some manual tabulations, and to make current reports and listings more workable.	D:R D:C:S	
2.8	Analyze Presence and Effectiveness of DIS Edits	Functioning edits should be evaluated for their operational efficiency and effectiveness in decreasing the error rate.		D:R D:C	
2.9	Optimize Current ECL Run Streams	Technicians knowledgeable in run time improvement and throughput techniques should review and modify each ECL run stream to achieve maximum optimization of computer resources.	Sort assigns developed by D:C:S:S. Contained in the Programmers Handbook to provide for optimal ECL assignment for use by SORTS.	D:C:S:S	Completed
2.10	Provide Technical Programmers Training	The technical material and training courses currently available for National Office programmers should be evaluated for their accuracy and relevance.		D:C:S D:C:H:S	

EDS Recommendation		Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 2. Software Applications					
2.11	Develop User-Defined Inventory Analysis Tools	Develop a method to monitor and reduce the unpostable inventory.	Several management reports have been revised for January 1, 1986. These reports will provide management an additional tool so they can shift resources to problem unpostables or summaries that were not available this past year. We also plan to solicit recommendations from the Service Center for future modifications.	D:R:R:I	Completed 4/1/86
2.12	Evaluate Options to Enhance DIS Edits	Service Center personnel and National Office programmers who are knowledgeable in IV-Phase software should evaluate the feasibility of reinstating as many data validity edits as possible without degrading response time.	Valididty checks were added in early 1985. We are now concerned with degradation of response time. A saturation/capacity test is scheduled for the weekend of 12/14/85.	D:C:S	
2.13	Form ECL Optimization Group	The Software Division should establish an ECL review group staffed with technicians who are knowledgeable in ECL optimization techniques.		D:C:S	
2.14	Analyze Data Base Partitioning	Experienced data base administrators (DBA) should conduct a detailed analysis of the IDRS data base structure to determine optimum use of the linkage handling in multiple areas of DMS 1100.		D:C:S:S D:C:U:P	
2.15	Provide Systems Design Programmer Training	The Software and Hardware Divisions should provide thorough training in effective methods of systems design, development and implementation.	(a) A standard training nucleus exits for National Office programmers in this area. (b) Need for advanced training will be explored.	D:C:H D:C:S D:C:M	Completed
2.16	Design Integrated Returns Processing System	The IRS should strongly consider the eventual redesign and integration of the entire returns processing system.		D:C:R	

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EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
3. Data Communications				
3.1 Review Service Center's Single Points of Failure	Procedures should be drafted that specifically address what it to happen when the Sperry 9040 fails.	Sperry has made an additional 9040 available in cases where a long-term front-end failure is encountered.	D:C:H D:C:U SC's	Completed
3.2 Review Implementation of the Upgraded IDRS Equipment	The IRS should reevaluate the communications requirements at all of the Service Centers in light of new equipment available.		D:C:H:D D:C:U	
3.3 Develop Data Communication Plan	The IRS should develop a data communications strategic plan which addresses not only today's needs but also looks to the future, thus, establishing a framework for growth.		D:C:H:D D:C:U	

EDS Recommendation		Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
4.	Workflow				
4.1	Develop and Implement Incentive Programs	To ensure success in meeting the goals and objectives of the incentive program, a uniform methodology of administering the program should be established.	The Data Conversion Automated Incentive Pay System will be implemented in all centers by January 5, 1986. The Austin Service Center RPA staff has written a program to integrate quality review information into the incentive pay program.	D:R	January, 1985
4.2	Develop and Implement Quality Review Programs	To develop this methodology, management should define "quality" for each area, establish acceptable ranges, develop a schedule to monitor a specific sample size, and construct an employee feedback mechanism.	Historically effective Service Center Quality Review systems will be further enhanced by the introduction of PAS a structured method of gathering specific error data, maintaining the data on a microcomputer for analysis, and providing for reports, graphs and charts.	D:R	
4.3	Correct Unpostable Problem	Short-term, the IRS should devote resources to eliminate the current unpostable inventory, logs should be kept to record the reasons for the unpostables.	The IRS has nearly doubled the resources to reduce the unpostable inventory. We have expanded to day and night units, and will continue to have these units during the next filing season. We have incorporated several programs that will expedite the resolution of unpostables and have developed a program to facilitate the closing of specific unpostables (i.e., entity and payment). In August, we convened a Task Force which made recommendations will be effective 1-1-86. Currently, a preliminary analysis for a January 1986 Task Force is being conducted in 5 Service Centers.	D:R:R:I	Completed Complete or Under-way Completed

EDS Recommendation		Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4.	Workflow				
			The current Program Analysis System (PAS) has been expanded to trace unpostables to the source. Training has also been increased in all Service Centers.	D:R:R:I	Completed Completed
4.4	Analyze Returns and Document Control Procedures	Methods should be developed to automate batch activation or receipt log-in as soon as the document enters the site.	(a) A pilot of optical character reader equipment for batch control began in Kansas City Service Center September 23, 1985. During implementation, some enhancements were made to the system to make it more beneficial to the users. These included the capability for more on-line reports, additional terminals for other areas of center, and automatic generation of some batch control information that had been keyed in.	D:R	

EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4. Workflow				
		(b) A "DIS Managers' Manual has been issued which details operations of the DIS system, including procedures for validating the fact of data entry.	D:C:S:IS	1/1/86
		(c) A document, Data Integrity and Run-to-Run Balancing, is being issued. This document specifies steps to be taken to assure the completion of processing of all blocks of data.	D:C D:R	12/24/85
		(d) National Office teams visited all Service Centers in early 1985 to determine the nature and extent of problems being experienced in controlling documents and in balancing data. Immediate action was taken on many of these items and an extensive action plan was developed as a result of these visits. All items other than the long range objectives have been implemented, or will be implemented in January 1986.	D:C D:R	March 1985
		(e) The same National Office teams have recently completed additional visits to all Service Centers to assure readiness for 1986 processing and to share information. Recommendations from these visits are being formalized to achieve soonest evaluation and implementation.	D:C D:R	1/31/86

EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4. Workflow				
		(f) A comprehensive study is initiated to control all documents at the point of receipt. The techniques to be reviewed include an expansion of the computer mail processing system, the "Fact-of-Filing" processing, revised handling of imperfect (e.g. unsigned) returns, or other state of the art methodology. The intent is to provide a readily accessible file of document location, i.e., current step of processing.	D:R:R:R	1/31/86
		(g) A "Fact-of-Filing" file will be initiated in March 1986, which will record the refund individual income tax returns at an early point in processing. This will be researchable by the individuals' social security number, and will provide information to respond to taxpayers' inquiries.	D:R:T	3/31/86
4.5 Develop Structured Documentation and Communication Mechanisms for Pipeline Problems	The IRS should utilize a formal mechanism for recording Service Center problems, acknowledging receipt of the problem information from the National Office, communicating identified problems to all Service Centers, and following up on resolutions to all Service Centers.	Establishment of Command Post 24 hours per day/7 days per week operation.	D:C:U	1/17/86

EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4. Workflow				
4.6 Review and Correct User/Data Processing Communication Gap	The IRS should establish an effective, formalized method of exchange between the user and the data processing group. Service Centers and the National Office should meet once a month or more.	(a) Establishment of the Command Post, a multifunctional unit that will bridge the gap between the Service Centers/National Office Users and the Data Processing organization in reporting systemic or operational problems and diseminating information concerning those problems to all Service Centers.	D:C D:R	1/17/86
		(b) Conference calls to ARC's and Service Centers Directors.		1/86
		(c) Briefing expanded to three times per year to provide information concerning upcoming changes and potential impact.		July, October December
		(d) Periodic breakthrough meetings will be held between National Office and field users and system analysts to propose, analyze and discuss potential system enhancements.		early 1986

	TITLE OF RECOMMENDATION	DESCRIPTION OF RECOMMENDATION		ACTIONS TAKEN OR BEING TAKEN	RESPONSIBLE ORGANIZATION	COMPLETION DATE
4.7.	Analyze and Resolve Invalid Notices	Current instructions should be reviewed to identify and resolve the causes of invalid (incorrect) notices prior to being mailed to taxpayers, and reduce the number of invalid notices caused by Unpostables.	o	We are selecting for mandatory review notices where our records of Federal Tax Deposit (FTD) payments do not agree with the taxpayers figures.	D:R:R:E	February 1985
			o	We have revised the Math Error Notice for Form 941 (Employer's Quarterly Federal Tax Return) to include up to 18 FTD payments on the notice to help the taxpayer reconcile his records.	D:R:R:E	January [illegible]
			o	A program was developed to match payments delayed in processing against balance due notices to ensure that the notices contain the most current payment information prior to mailing.	D:R:R:E	[illegible]
			o	The Notice Review Processing System is designed to automate the current notice review system to identify those notices most likely to require changes. It will be implemented in two phases.	D:R:R:E	
				Phase I will automate the research and print out this information with a copy of the notice.		July 1986
				Phase II will allow for an on-line notice correction capability. Once a determination is made to change a notice, we will be able access the notice via a terminal to make the necessary changes, rather than manually retyping the notice.		January 1988
			o	A new computer generated notice will be issued to taxpayers on Federal Tax Deposits (FTD's) when the coupon does not show type of tax or tax period payment is for. The notice will inform the taxpayer that we have applied the FTD to their 941 (Employer's Quarterly Federal Tax Return) account. It will have a tear-off return stub for the taxpayer to use if we applied the FTD to the wrong type of tax or wrong period.	D:R:R:R	January 1986

EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4. Workflow				
4.8 Prepare Effective User Documentation	IRS should establish procedures whereby handbooks are reviewed by user groups with feedback provided through appropriate channels. Word processing capabilities should be developed for manual updates.	(a) the SDLC process will ensure greater user and Field participation in the design of new systems or changes to existing systems.	D:C D:R Users	Continuous
		(b) Service Center representatives prepare (with our assistance) the majority of the operational manuals and all IRM training materials. For examply, KCSC developed and is piloting a new ERS Handbook (with our concurrence).	D:R:R:I	Ongoing
		(c) National Office currently is exploring, with the Service Centers, a system of distributing filing season procedural changes.	D:R:R:I	early 1986
		(d) Planning a system of automating the IRM/HB process by directly accessing Publishing Services' data base for on-line review/revision/clearance.	D:R:R:I (Cooperative effort with Publishing Services Branch & IMD function)	
		Convene Task Force Pilot System		early 1986 FY 87
4.9 Eliminate the Use of Key Production Staff for Systems Testing	The IRS should develop a method of conducting all testing from the National Office using a test system identical to but scaled-down from the production system.	Disagree. To ensure through timely testing, adequate equipment availability and experienced personnel are required. Benefits derived from using experienced Production personnel out weighs expenditure or resources.	D:C D:C:H:ST Service Centers	Completed

EDS Recommendation		Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
(Cont.) 4. Workflow					
4.10	Implement Production Management Training	The IRS should devote effort to the training of first line and mid-level management. A consultant should be enlisted to share management strategies on items including reporting mechanisms, problem resolution, employee relations, motivation and stress management.	FOCUS 86 is the training program that is being given to all Service Center managers to provide them with an overview of IRS's major automated systems. It also provides tools and techniques of quality product management and problem resolution. FOCUS 86 will be taught at the Service Centers during December and January.		
4.11	Evaluate and Implement Procedures for User-Defined Enhancements	The IRS should establish a mechanism by which user and data processing representatives could mutually define the enhancements that make the system more responsive both to the taxpayer and to the user.	Periodic breakthrough meetings between National Office/Field users and Systems Analysts will be conducted to propose, analyze and discuss potential system enhancements.	D:C D:R Users	early 1986

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	EDS Recommendation	Brief Description	Project (Action taken/ Being taken)	Responsible Organization	Target Date
4.12.	Review and implement automation procedures to eliminate extraneous manual effort	Review procedures and implement a system to to automate all pipeline processing	OCR of Form 941 in development	D:R:R:E	Pilot -2/86 Nationwide - 4/86
			OCR of Form 942 in development	D:R:R:E	Pilot -4/86 Nationwide - 7/86
			OCR of Information Returns Forms (1098, 1099, 5498) in production	D:R:R:IM	Completed 3/85
			OCR of Federal Tax Deposits in production	D:R:R:R	Completed 1/84
			OCR of Form 1040EZ Income Tax Return in production	D:R:R:I	Implemented 1/84
			OCR, Form 1120-A, Short Form Corporation Income Tax Return, in test status.	D:R:R:I	3/15/86
			OCR, Form 8264, Application for Registration of a Tax Shelter, in production.	D:R:R:IM	10/84
			SUPER (Study of the Utility for Processing Electronic Returns) - Tests are planned	D:R:R:I	Testing through 1987
			OCR for Form 6248 (Annual Information Return for Windfall Profit Tax) - Exploring feasibility	D:R:R:IM	1987

Magnetic Media for IRP, action being taken. Currently, all filers of Form 1099-B as well as filers who submit 50 or more Forms 1099 INT, DIV, OID, and PATR are required to file on mag media unless a hardship waiver is granted (based on prior legislation - TEFRA and IDTCA). If proposed regs are promulgated, in 1987 filers of all other information returns will be required to file mag media if filing 500 or more returns. In 1988, filers of all other information returns will be required to file mag media if filing 250 returns. The hardships waiver provision is also applicable to the proposed regs.	D:R:R:IM	1987

EDS Recommendation	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
5. User Interface	The user would be better served if all data processing functions, including the computer operations personnel at the Service Centers, reported to a single Assistant Commissioner.	The recent move of Computer Branch oversight responsibility to Computer Services, and plans to strengthen National Office monitoring role, are intended to address this issue.	D:C:U	Continuous

II. Other Improvement Projects from the 1986 Filing Season Plan Project

The following 14 recommendations were presented in a report submitted by the Deputy Assistant Commissioner (Returns and Information Processing) that identifies areas requiring attention in order to achieve a stable Service Center processing year in 1986. ~~The~~ study generated 13 recommendations, of which were in the EDS section.

II. Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
1. IRM/Training Material Issuance	Early issuance of updated handbooks and training materials is crucial to enabling the Service Centers to start processing in a timely manner.	(a) All IRMs needed for January processing scheduled for delivery from November to December 23. Returns Processing has developed data base system used to control and monitor these IRMs and will report status biweekly. Approximately 85 IRMs containing 11K pages (7K pages with changes) for D:R 1986 processing (Including those originated in D:C, there are 156 scheduled issuances totaling over 14,000 pages). (b) Publishing Services has now received 70% of all scheduled handbooks and close to 80% of the total pages. Training for DIS, ERS, and GUF being prepared Atlanta, Cincinnati and Memphis Service Centers on schedule for November 15 through December 9 issuance.	D:R PM:S:PM:P	Ongoing
2. Continuation of the Hub Concept	This will provide quick identification of problems and communication of changes to the other Service Centers. A hub center staffed with the appropriate expertise and operating concurrently with the other centers will serve to reduce processing problems early in the filing season and improve the quality of returns processing.	(a) Computer Services will hub all transmittals except emergency items and those not technically feasible. (b) Atlanta Service Center has been designated as hub with no lag between start-up in other centers (except ERS which will be piloted in a single center last week in December).	D:C D:R	Ongoing

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
3. Inventories and Service Center Control File (SCCF) Clean-up	Current inventories must be reduced to levels by the end of 1985. The Service Center Control File (SCCF) clean-up must be completed.	(a) Inventory reduction efforts for Adjustments, Unpostables, ERS, Rejects, BOORs and Unidentified are continuing. (b) New guidelines were adopted during the July 29-31, Executive Conference to streamline procedures and provide better application of Service Center resources. (c) For SCCF Clean-up, Ogden, Kansas City, Cincinnati, and Andover met the September 30, target date. Four will finish by December 31 (Fresno, Austin, Atlanta, and Memphis). The remaining are continuing clean-up efforts.		
4. End-of-Year Processing Instructions	End-of-Year processing instructions must be prepared and issued to the field as early as possible to ensure a smooth changeover to 1986 procedures and programs.	(a) End-of-Year briefings for National Office managers and analysts in D:R was conducted on October 30 and 31. (b) a series of end-of-year briefings for Service Centers has been ongoing. Separate teams have addressed IDRS and pipeline changes for 1986 and visited all ten centers. Simillar briefings covering Master File changes were conducted at NCC in early December. (c) End-of-year processing procedures were issued in Mid-November to all Service Centers.	D:C	12/85

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
5. FTD Study Group Proposals	Improvements to the FTD program.	(a) Revise the Coupon and instructions. (b) Use first class mail. (c) Key Verification for deposit date on advice of credit and of EIN on blank over-the-counter forms in the OCR/FTD function. (d) Information and education efforts include: Working with professional organizations Information Notices for use in return mail outs Issuance of videoclip or news release Outreach seminars (e) Notice clarity efforts, including listing of deposits on FTD discrepancy notice sent to taxpayer for easy reconciliation and the issuance of a letter to taxpayers on incorrectly prepared forms. (f) Systemic changes include suspense of the FTD penalty when liability data is omitted on the return. Instead, the center will correspond before assessment. We will also issue a letter to ask for verification of deposit where it is the first deposit for a particular type of tax.	D:C D:R	Various

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
		(g) Temporary suspension of Offset October 1985-May 1986. (h) Form 1042 FTD processing automated with the addition of 1042's to RMF.		
6. Production Rates and Workplans	Production rates and Service Center Workplans need to be closely monitored to ensure they provide for improved processing quality.	(a) Planning process (rate changes) carried forward 1985 changes. (b) During review conference, standards adjusted based on January to June 1985 actual rates and reasonable expectations for improvements. (c) Center and regional reviews of workplans recognized 85 standards not indicative of achievable rates. (d) Eliminated requirement for planning based on higher of centers experience or National average. (e) Discontinued use of a standard deviation analysis of performance data used for proposed adjustments.	D:R	Completed

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
7. Service Center Quality Improvement Study	Demonstration projects for selected series returns in Cincinnati, Memphis and Ogden (CSC-1040A, MSC-1040NB, and OSC-10% 1040NB) Local Project Teams will be established and trained in quality improvement methodology, team building, problem solving, and statistical quality control techniques. Teams will identify targets of opportunity and implement improved quality assurance and controls with minimum of National Office contraints.	(a) Schedule: October 1985: Demonstration Project Teams established October to November: Design Phase December: Recommendations made and approved January - June: implement, monitor and evaluate (b) Oversight for Demonstration Projects and other recommendations to be provided by executive level Servicewide Quality Council. (c) IMF SOI processing will be moved up 5 months and run in January at NCC and in February in the Service Centers. Coupled with a new report (RDS SOI-5-0025) this will provide Service Centers with management information relating to quality.	D:R	6/86
8. Assure Adequate IDRS Availability	Additional CPUs, workload ~~redistribution and 08% optimization~~ will ensure adequate and reliable realtime ~~16 hours per weekday~~. daily.	(a) Daily TIF updates have been reduced by 75% - 80% during January to June 1985. (b) Realtime is immediately available as weekend processing is completed. (c) Weekend batch clock hours reduced by 68% from July 1984 to June 1985. (d) Changes made to simplify set up for running of UUF programs to afford more real-time availability and prevent reruns.	D:C	1/86

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
9. IRM Provisions for Reconciliation of Deposit Discrepancies	Various revisions to improve processing.	(a) IRM 35(70)0 PAYMENT TRACERS - due to Publishing Services	D:R PM:S:FM:P	12/85
		(b) 1/10/86 and due to ship field 1/27/86		
		(c) IRM 35(17)0(10)0 DISHONORED CHECKS - due to Publishing Services 11/29/85 and due to ship 12/24/85.		
		(d) IRM 3(17)(63)0 ACCOUNTING CONTROL - a partial revision is being issued by transmittal 3(17)00-146, which is scheduled to ship by 11/22/85		
10. Timely Deposit IRM	Various revisions to issue consistency.	(a) IRM 38(43)0 being revised to clarify 24-hour deposit requirement.	D:R PM:S:FM:P	1/86
		(b) Specific instructions are included relating to mandatory requirement to release only a balanced deposit.		
11. Paper Back-up	Input of forms 1120X and 1040X adjustments via DIS using Document Code 54 (Blocking Series 200-299 only).	(a) SAT tested in Andover Service Center in August, pilot completed in Fresno Service Center on October 31, 1985. Available Nationwide in November 1985.	D:R D:C	Completed
	All other IMF and BMF adjustments through DIS using ADJ 54 and perform certain types of debit/credit transfers using Document Code 34.			7/86
	Document Code 63			6/86
	Document Codes 04, 47, and 77 are being researched.			

Other Improvement Projects	Brief Description	Project (Action taken/being taken	Responsible Organization/Person	Target Date
12. Management Reports	During initial processing of 1040 returns after extraction, the Service Centers will perform a secondary sort of all non-remittance refund returns. Those returns selected projected at 80.2 million, will have a separate program code for identification during processing. This separate sort will distinguish refund returns from the other-than-full-paid returns (balance due, even credit elect) - Management Information Report (Automated Weekly Refund Report) scheduled for January 1986.			mid-1986 Ongoing
13. CP Notice Stock and Machine Stationery	Improve Service Center inventory Control schedule	(a) An automated Service Center control schedule is being planned. (b) Also, an automated system linking Service Centers with National Office Publishing Services Branch for the purpose of better managing forms inventory and projection requirements will be implemented as soon as possible.	D:R D:C PM:S:FM:P	
14. Proactive Public Affairs Strategy	Issue 1986 Public Affairs Program Letter which will require that the Service operate in a proactive manner instead of a reactive mode. The Service will take advantage of opportunities to provide information to the media and the public through speeches, media interviews and events, etc. this will reassure the public that the tax administration system is sound.	(a) Program Letters issued (b) Media events are being scheduled. (c) The number of speaking engagements is being increased in the various Regions.	D:R Public Affairs	Ongoing

III. Other Improvements from the SCRS Action Plan

1. Staffing
2. Training
3. Hardware
4. Systems Software
5. Applications Software
6. Documentation
7. Miscellaneous

The attached SCRS action plan contained 256 recommendations which were compiled as a result of numerous reviews of Service Center operations and the SCRS environment by both IRS and Sperry personnel. Of these 256 recommendations, 32 (the circled ones) are related to the EDS recommendations and have been included in that portion of this report. The remaining are beyond the scope of the EDS report.

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List of Categories

Category Number	Category Description
1	Staffing
2	Training
3	Hardware
4	Systems Software
5	Applications Software
6	Documentation
7	Miscellaneous

[illegible] - 32 SCRS items included in EDS Recommendations portion of this paper (above)

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
2	1	1,2,3,4,5,6,8,9,10,13,15,32	Provide DBA additional training in both data base support and mass-storage management.	Include in DBA training. Two DBA classes conducted in March 1985.	D:C:S:S and PM:HR:T:C	Continuous
2	2	1,7,9,10,32	Provide CPE training in performance analysis.	Develop training requirements such as established for DBA.	D:C:U and PM:HR:T:C	Completed
2	3	2,3,4,5,7,9,10,11,12,13,14,15,21 30,32	Initiate formal operations training to include audit trail tapes and running data base dumps.	Include audit trail tape and data base dump procedures in task analysis for computer operators course.	PM:HR:T:C D:C:U	10/85 Thereafter Continuous
2	4	27,32	User organizations, such as D:R:R, should provide support to user area supervisors and managers in assisting them to carry out their roles in SCRS system implementation.	National Office Training will work with users to accomplish this.	PM:HR:T:C	Continuous
2	5	25,32	Provide additional training to appropriate National Office employees and to Service Centers RPA's and Operators in the subject area of integrated recovery system.	Include in task analysis and curriculum developed for RPA's and operators.	D:C:S:S and PM:HR:T:C	10/7/85 Thereafter Continuous
2	6	1,2,3,4,5 7,8,9,10,14,17,21,32	Provide RPA's additional formal training in problem resolution.	Included in RPA classes conducted in March 1985. Include in future RPA classes.	D:C:S:S and PM:HR:T:C	Continuous
2	7	2,3,4,5,6,7,8,9,10,11,32	Develop a SCRS general overview course and make it available to all Service Center personnel involved with SCRS.	Included in National Office Training work plan. (See attached Training Plan.)	PM:HR:T:C	Continuous

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
2	8	1,2,3,4,5,7,9,10,14,18,20,21,27,32	Continue formal operator training emphasizing IRS processing and "hands-on" experience. Include ASET categories that are appropriate.	See attached Training Plan.	D:C:U PM:HR:T:C	1/31/85 Thereafter Continuous
2	9	2,3,4,5,7,9,10,32	Train the Forecast Scheduler in performance analysis.	CPE analyst will assist forecast scheduler with performance analysis.	Service Centers	Continuous
2	10	2,3,4,5,7,9,10,32	Provide training to scheduling personnel in reading CPB's.	This is included in the task analysis and curriculum for Schedulers scheduled for January 1986.	Service Centers	Continuous
2	11	1,2,3,4,5,22,25,32	Sperry Analyst training needed.	Training needs are under continual review. Additional training is currently in progress.	Sperry	
2	12	2,7,8,10	Need CE training on diagnostics and peripherals.		Sperry	
2	13	14,32	Provide DBA and RPA's with training in file save procedures (SECURE, SAVEALL, SAVENEW).	Training provided in RPA class at N.O. in October 1985.	D:C:S:S and PM:HR:T:C	Continuous
2	14	6,8,32	Provide 90/40 diagnostic training needed for Sperry and IRS personnel at SC's.	Training at CSC in September 1985.	D:C:S:S and PM:HR:T:C	Completed
2	15	11,32	Continue training program for newly hired D:C:S and D:C:M personnel.	Programmer training will be continued for newly hired personnel.	D:C:S:S	Continuous based upon need

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
2	16	11,32	Professional educators should be used to teach as many courses as feasible.	Disagree - IRS personnel should be utilized when appropriate.	D:C:S:S and PM:HR:T:C	Completed
2	17	11,31,32	Develop a SCRS general overview course and make it available to all National Office and NCC personnel involved with SCRS.	Included in National Office Training work plans. (See attached Training Plan).	PM:HR:T:C	2/86
2	18	11,32	Programmers supporting products written in MASM or PLUS should receive training in those languages.	Systems programmers are sent to MASM and PLUS classes.	D:C:S	Continuous
2	19	11,32	Programmers must receive training on available utilities.	Programmers Handbook Volume IX documents use of utilities.	D:C:S	Continuous
2	20	18,32	The DBA should attend the Integrated Recovery Utility Class.	This is a Sperry-taught class. Service Centers arrange attendance.	Service Centers	Continuous
2	21	32	The Software and Hardware Divisions should provide thorough training in effective methods of systems design, development and implementation.	Part of this recommendation is addressed in the current training plan which covers D:C:S, D:C:M and D:C:H employees. For example, programmer training is provided to newly hired D:C:S and D:C:M employees including both analysis and design as well as COBOL and systems specific training.	D:C:M, D:C:S, D:C:H	Continuous

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
3	1	1,2,3,4,5, 6,7,9,10,11, 22	Place SCRS on UPS as soon as possible.	Initiate procedures to acquire UPS at all sites. Funds have been requested in the FY86 Supplemental Budget request. If approved, installation will commence in FY86.	D:C:H:E D:C:U	FY86
3	2	1,12,14,17, 32	Implement tape certification by subscribing to Tape Certification Service if unable to purchase tape certifier.	A tape cleaner/evaluator capable of evaluating high density magnetic tape at 6,250 BPI has been ordered for all sites.	D:C:H:E	1/1/86
3	3	26,28,31	Install additional 1100/82 processors in all Service Centers. Computer Hardware enhancements scheduled for Fiscal Year .987 should be moved up and installed in Calendar Year 1985.	All processors have been delivered. Ready for use target date 1/1/86.	D:C:H:E	1/1/86
		31	Atlanta should be reviewed to determine if an 1100/84 is warranted.	Atlanta Service Center was reviewed and an 1100/84 is not warranted.	D:C:U	Completed
		31	To the extent possible, efforts to expedite the Communications Replacement System (CRS) should be pursued by the Assistant Commissioner (Computer Services).	We are locked into the current schedule for CRS installation, until contract award is made. At that time we can reexamine our installation schedule.	D:C:H	

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
3	4	25	Upgrade mitrons in Service Centers to faster baud rate.	Short Term: Test data compression feature at Fresno and Austin. Long Range: Replace in procurement for Communication Replacement System.	D:C:H:D	3/31/85 test of short term 1986-long term.
3	5	2,3,4,5,6, 7,8,9,11	Schedule total system preventive maintenance monthly to promote system integrity.	IR Manual 2740, Computer Operations in the Service Center, was reviewed and will be updated regarding preventive maintenance schedules.	D:C:U	Clearance completed 9/30/85. Issuance scheduled by 11/1/85.
3	6	2,3,4,5,6, 8,9,11	Install additional disk units to permit proper scheduling of preventive maintenance periods/procedures to run on-line diagnostics and move off failing drives in timely fashion.	One additional disk unit installed at each Service Center.	D:C:H and Sperry	Completed
3	7	2,3,4,5,6, 7,8,9,10,11	Furnish TRACE support and test on scheduled basis.	IRM 2748.6 governs the use of TRACE.	D:C:U	Completed
3	8	2,3,4,5,6, 7,8,9,10	Mount latching plates permanently to disk drives to permit correct door closings.	Latching plates mounted.	Sperry	Completed
3	9	2,3,4,5, 6,8,22	Acquire a second printer.	A second printer for the 1184 has been acquired for each Service Center.	D:C:H:E	Completed
3	10	1,2,3,4,5, 6,7,8,9,22	Assure scheduling of standard preventive maintenance.	Requirements for PM specified in IRM 2747.	D:C:U	Completed

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
3	11	1,2,3,4,5, 6,7,8,9,10,22	Establish and comply with standard maintenance procedures.	Written agreements have been executed between Service Center management and Sperry site manager at each Service Center. However, these site schedules have not always been followed.	Service Centers and Sperry	Continuous
3	12	1	Do not perform emergency maintenance during preventive maintenance.	Sperry agrees this will not be done and will instruct site managers.	Sperry	Continuous
3	13	1,2,3,4,5, 6,7,8,9,10	Insure that field change orders are scheduled and that notification is given.	When FCO's are received, the Service Center will be notified and a schedule for installation will be agreed upon. This is being done; however, agreed upon schedule is not always kept.	Service Centers and Sperry	Continuous
3	14	2,3,4,5	Maintain standard "Device Maintenance" records.		Sperry	
3	15	1,2,3,4,5, 7,9,10,11	Maintain spare parts inventories and lists.	A critical list of spare parts has been prepared. These parts are maintained at Elk Grove, Ill. This is in addition to normal field spare parts.	Sperry	Continuous

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
3	16	1,4,5	Maintain proper levels of diagnostics on-site.	Proper level has been achieved.	Sperry	Continuous
3	17	2	Arrange for periodic testing of each System Maintenance Unit.		Sperry & SCs	
3	18	1,2,5,8,12	Provide for daily SELA review.		Sperry	
3	19	1,2,3	Discontinue turning disk drives off and then turning them back on as a method of resolving data check problems.	This has been reemphasized to Sperry CE's.	Sperry	Continuous
3	20	1,2,3,4, 7,10,12	Discontinue problem resolution technique of opening vacuum column doors on tape units.	This has been reemphasized to Sperry CE's. This should also be emphasized to IRS operators.	Service Centers and Sperry	Continuous
3	21	2	Install a wheel cover on tape drive requiring one.	Wheel cover installed.	Sperry	Completed
3	22	4,6,8,9, 10,11	Install baffle plates on all disk strings.	Baffle plates installed.	Sperry	Completed
3	23	2,4	Resolve BWIC bi-directional problems.	Currently testing at FSC.	Sperry	
3	24	1	Replace faulty Transition Unit lights.	Faulty Transition Unit lights replaced.	Sperry	Completed, but Continuous
3	25	1	Insure HDA availability.	A spare is on site and a second is available within two hours.	Sperry	Continuous

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
3	26	1,2	Recommendation deleted. Same as 3.17.			
3	27	11,32	Quarterly check Sperry tape drives for compatibility during preventive maintenance.		Sperry	
3	28	32	Review current hardware configuration in conjunction with usage data to identify potential bottlenecks.	This is an on-going effort. The recent SCRS upgrade was initiated because of the potential capacity shortfall that was projected.	D:C:U	Continuous
3	29	32	Evaluate terminal usage by programmers.	Strategic initiative IMS-5, Software Productivity addressed this recommendation. The results of a study conducted by a consultant, CAP GEMINI, indicated that there were enough UNIVAC terminals (1 terminal for each 2 employees) but not enough IBM terminals (1 to 3 ratio). In both cases, many of the terminals were not conveniently located for use by programmers.	D:C:S, D:C:M, D:C:H	Completed

SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	1	1	National Office should explore use of PADS as diagnostic tool.	PADS is available for use in the National Office and the Service Centers for locally developed programs. Use of PADS is documented in SIB and Programmer Handbook.	D:C:S:S	Completed
4	2	1,2,3,4,5 6,8,32	Explore use of dynamic dumps in a static environment.	Dynamic dumps have been explored and are not recommended. A new utility, DBLOG, has been developed to analyze the system log file and print tapes used for dumps, and print both audit trail legs in chronological sequence. This is available to all Service Centers.	D:C:S:S	Completed
4	3	1	National Office must identify and document each occurrence of data base corruption to permit tracking and resolution.	Each occurrence of data base corruption must be documented on a Form 5161 (Systems Software Error Notification) and forwarded to the National Office Data Base Section for research.	D:C:S:S and Service Centers	Continuous

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	4	1,12,24,25	Correct SCRSUP to prevent operations from continuing to error it off or hanging up other jobs.	This problem was corrected by transmittal 85SS-053-U.	D:C:S:S	Completed
4	5	22,25	Establish standard checkpointing procedures (See 5.11).	SIB U-134 and others were issued on this subject. A memo was issued to each branch in D:C:S and D:C:M.	D:C:S:S	Completed
4	6	2,3,4,5,7, 9,10,11, 16, 22	IRS-Sperry snould develop a comprehensive set of required system utilities and insure that existing utilities function as required.	Volume IX of Programmers Handbook and Chapter 14 of RPA Handbook identify existing software utilities. Several Data Base utilities have recently been written but are not included in these documents. They are documented with COH's for each DBU program and made available to the Data Base Administrator.	D:C:S:S	Continuous
4	7	2,3,4,5,7, 9,10,22	Develop a means of downing a segment of TIF to realtime while simultaneously making that segment available to batch.	Sperry has developed this capability and it has now been transmitted to all Service Centers.	Sperry and D:C:S:S	Completed
4	8	12	Increase frequency of STATIC database dumps.	RPA Handbook Chapter 5 covers this item.	D:C:S:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	9	26	Develop procedures to continue processing by bypassing data read-fails, data write-fails, or block count discrepancies.	Sperry has developed a utility called IRS Copy and Edit (ICE). ICE will allow tape records or blocks to be bypassed. The utility is being tested and documented.	D:C:S:S and Sperry	1/1/86
4	10	11,22,26	Explore feasibility of operating two consoles simultaneously.	Sperry did a study of the needs for this capability at NCC and BSC and concluded that this was not required.	D:C:S:S and Sperry	Completed
4	11	25	National Office should develop a utility to reallocate intermediate file space.	The National Office Files Manager is pursuing analysis of major systems to release unneeded file and unused space.	D:C:S:S	Continuous
4	12	2,3,4,5, 7,9,10	Provide a utility to release unused space at end of data file.	The National Office Files Manager is pursuing analysis of major systems to release unneeded files and unused space.	D:C:S:S	Continuous
4	13	2,3,4,5,29	Apply PCR 00290-02440-PCR to the DMU to correct sort K1 error.	PCR 00290-02555-PCR has been applied and the corrected DMU has been sent to all Service Centers.	D:C:S:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	14	2,3,4,5,11	National Office should use VERIFY output to anticipate data base problems in addition to verifying current condition.	VERIFY should no longer be used for TIFs. Program DBU94 is available to monitor TIF growth.	D:C:S:S	Completed
4	15	2	National Office should conduct study to determine optimal recovery techniques for each processing environment.	This will be assigned to a Data Base Administrator from one of the Service Centers and a Sperry SA.	D:C:S:S	3/87
4	16	2,3,4,5,7,9,10,22	National Office should examine the MV keyin in the operating system.	Sperry reviewed the MV keyin and reported no problems.	D:C:S:S and Sperry	Completed
4	17	2,3,4,5,6,7,8,9,10,14	Institute a procedure for removing files from the system catalog for National Office runs not using those files.	This is a files management function in the Service Centers.	Service Centers	Continuous
4	18	2,3,4,5,6,8	Insure that SECURE saves only files needed for production or reruns.	Each Service Center should designate a technician to accomplish this.	SCs	Continuous
4	19	2,3,4,5,7,9,10	Use file cycles with a cycle limit of i for runs currently deleting and recataloging mass storage files.	Guidelines in Programmers Handbook Volume III and numerous SIBs.	D:C:S:S	Completed
4	20	2,3,4,5,7,9,10	Assure that all Service Centers possess identical levels of software in their system libraries.	All Service Centers receive same software releases unless a pilot situation exists. SC personnel must insure timely implementation.	D:C:S:S and SCs	Continuous

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4	21	2,3,4,5,6,7,8,9,10,17	Examine sorts to ascertain optimal usage of SORT/MERGE.	D:C:S:S will review SORT/MERGE for optimization.	D:C:S:S	Continuous
4	22	2,3,4,5,7,9,10	National Office, Regional Offices, and Service Centers must establish a policy concerning local program access to the data base and communicate that policy to all concerned.	The policy has been and is that there will be no data base access at the local level.	D:C:S:S	Completed
4	24	2,3,4,5,7,8,9,10,32	If REX is to be used for scheduling, modify to allow multiple copies of REX to run using multiple consoles.	REX has been rewritten to allow linking and sequencing of jobs.	D:C:S:S	12/1/85
4	25	2,3,4,5,6,7,9,10,32	Prior to obtaining automated scheduler, implement changes to improve performance of REX.	Currently rewriting REX for improved speed and other requested enhancements.	D:C:S:S	12/1/85
4	26	2,3,4,5,7,9,10,32	National Office should explore using local code informing operations when a tape drive needs cleaning.	Disagree, local code will not be provided.	D:C:S:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	27	2,3,6	Explore using TAPAVR once IRS is on Level 39 of the EXEC.	TAPAVR is being explored.	D:C:S:S	1/87
4	28	3,4,8	Develop procedures or write code to reduce operator intervention required by STAR-1100 for use of multiple systems tapes.	Update IRM 2800 based on Study and vendor/Software initiatives.	D:C:U	12/27/85
4	29	22	Resolve disk copy problems.	Disk copy problems resolved by Sperry. Disk copy instructions have been issued to the field and will be included in the next issuance of the RPA Handbook.	D:C:S:S and Sperry	Completed
4	30	10	Develop automated method of identifying ECL - TECL for which a new transmittal has been received and is on standard ECL library. Note: AUSC developed such a program.	SCRSUP currently identifies ECL elements with corresponding TECL elements.	D:C:S:S	Completed
4	31	6,8	Raise the support category of DIRVER, or an enhanced or new product should be provided.		Sperry	
4	32	15,21,32	Establish standard tape processing procedures.	Procedure contained in IRM 2800.	D:C:U	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	33	11	The status of all products should be readily available and included with the transmittal.	Standards are provided in IRM 2553.	D:C:M and D:C:S	Completed
4	34	11	First generation of a new release should be a full generation with a CULL and updates should include update elements and collection.	Disagree - no absolute object programs are transmitted.	D:C:M and D:C:S	Completed
4	35	11	Keys to SYS$*DLOC$ should be protected to avoid abuse.	Keys are now protected by the SENTRY SECURITY processor installed at NCC. This will be installed at all SCs.	D:C:S:S	6/86
4	36	11	Explore writing a utility to test ECL.	A utility program to test ECL is not necessary. SAT is now performed on a separate 1100/82 at NCC if not at a Service Center. The 1100/82 at NCC was configured to simulate production. All production ECL should be tested by programmers and SAT prior to implementation. Program testing checklist requires ECL testing.	D:C:M:ST, D:C:M, and D:C:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	37	11,32	Management of data on SCRS (not just data base) requires attention.	Files Manager in National Office is conducting a study of data management on SCRS. He is working with major projects to manage data through standard ECL. A SIB on production files management has been developed and shipped to the Service Centers.	D:C:S:S	Completed
4	38	11	IRS should decide which message class should be displayed on which console.	Agree. Done through the use of parameter cards.	D:C:S:S and Sperry	Completed
4	39	16	Investigate feasibility creating backup tapes for all data base dumps.	Disagree - requires too much tape and too much time.	D:C:S:S	Completed
4	40	17	Develop utility to interrogate both the audit trail and data base dump tapes.	Data base dump utility transmitted. Audit trail utility being developed by Sperry.	D:C:S:S	Continuous
4	41	18	Develop the capability on the 90/40 to up or down command codes in groups.	Capability exists on Univac 1100.	D:C:S:S	Completed
4	42	18,21	National Office Data Base personnel issue specific guidelines about when to reorganize and/or expand non-static data base area.	A study has been completed. Results are being reviewed by S.C. DBA's.	D:C:S:S	1/1/86

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
4	43	18	Issue instructions on the output analysis for various utilities.	Covered during RPA and DBA training.	D:C:S:S	Continuous
4	44	18	Provide better methods for verifying entire data base on a regular basis.	Efforts continuing toward quality imrprovement.	D:C:S:S	Continuous
4	45	18	Investigate using a DMU page compaction to increase speed of processing.	DMU processing extremely slow, investigation continues.	D:C:S:S	1/2/87
4	46	18	Consider expanding the TIF's to 10 separate areas.	Agree.	D:C:S:S	7/1/86
4	47	17,32	Execute a "save all" every week.	SCs have been instructed.	Service Centers	Continuous
4	48	32	Standardize file save procedures.	RPA Handbook, standardized runstreams and various memoranda have provided standardized file save procedures.	D:C:S	Completed

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5	1	1,2,3,4,5, 6,7,8,9,10 15,17,32	ECL must be tested before going to Service Centers.	ECL can be tested at NCC. Program testing checklist requires this. Transmittal to SAT should include ECL.	D:C:M and D:C:S	Completed
		31	Establish a freeze on all computer software changes except those mandated by legislation. The Automation Policy Board should establish an apparatus to implement this freeze.	Develop and recommend guidelines for the Automation Policy Board to adopt and implement. All RDS's will be reviewed on a case-by-case basis to ensure that the work, including legislation, can be implemented in a quality, low-risk fashion.	D:C:M, D:C:P, D:C:S, and D:C:U	Contingent on imposition of a freeze.
5	2	1	Establish groups at National Office to explore feasibility of modifying PCIOS with an option to bypass tape errors.	Study recommendations disapproved. ICE utility will be used.	D:C:S	Completed
5	3	1,2,3,4,5, 6,7,8,9,10, 16, 23, 29	Prevent programs from assigning resources that will not be used.	SIB's U-0057 and U-0102 and the Programmers Handbook, Volume V, Chapter 3, along with UNIVAC user notes of 19 November 1982 and 9 March 1984, discuss not assigning resources until needed.	D:C:M, D:C:S, and D:C:S:S	Continuous
5	4	22	Maintain record counts on tape files when possible.	See 6.20	D:C:S	1/86

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
5	5	22,25	Segment the following weekend runs: WTU14, WTU21, WTU41, TDA11, TDA14, TDA21, and TDA24.	AIMS data will reside on, and be directly accessible from, its own area of the data base, freeing AIMS processing from other weekend scheduling considerations. Entity data for AIMS accounts will become part of the AIMS area 1/1/86. Data on the TIF for AIMS reasons only will be removed 3/86.	D:C:S:D, D:C:S:S, D:C:S:C	3/86
				Segmentation of TDA runs is completed.		Completed
5	6	2,3,4,5, 6,7,8,9,10, 22,32	National Office should identify those jobs which could be packaged effectively into a single runstream, e.g., runs EOD15 thru EOD 26.	Agree, but not convinced that runs EOD15 thru EOD26 can be packaged as a single runstream because of variable input.	D:C:S:D	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
5	7	22	Direct all production printed output to laser printer.	SIB's L-0001 and L-0002, along with U-0126, provide instruction about moving print files to the laser printer. Programmers can assign to outprint files and then Service Center operators can elect where to print.	D:C:M, D:C:S, and D:C:S:S	Continuous
5	8	22	Consider revising numbering scheme for weekend runs.	Current numbering scheme appears to be reasonable and proper. Changes are not being considered at this time.	D:C:S:D	Completed
5	9	22	Discontinue use of sixth position in program-id.	Disagree.	D:C:M:S, D:C:S:D, and D:C:S:IS	Completed
5	10	12	Programmers should build a check into their program to assure proper data is processed for a given day.	Procedures were developed to prevent EOD runs from processing data from a previous day and included in transmittal SD-0711-U.	D:C:S:D	Completed
5	11	15,23,26,29, 32	Incorporate checkpoint/restart into any programs with runtime exceeding an hour and insure thorough testing of restart capability prior to implementation for production (See 4.5).	SIB U-134 and others issued on this subject. A memo was also issued to each branch in D:C:S and D:C:M.	D:C:M and D:C:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
5	12	23,32	Do not use temporary file assignments in conjunction with checkpoint/restart.	Programmer Handbook Vol.V and SIB U-134 addresses this issue.	D:C:M, D:C:S and D:C:S:S	Completed
5	13	23	Where possible, incorporate SRTASG utility.	SRTASG has been incorporated in all appropriate programs.	D:C:M D:C:S	Completed
5	14	1,28,32	Improve daily batch programs especially in GMF.	GMF01 and GMF07 have been rewritten. GMF02 replaced by GMF03 and GMF04. Under the revisions which will be operational in 1986, DED01 will provide separate files to GMF01, GMF04, and RPS05. Since GMF01, GMF04, and RPS05 will no longer interface, GMF01 and RPS05 can be run simultaneously in a multiprogramming environment. Optimization of these programs in COBOL should result in additional decreases in running time. TEP Extracts have been moved to speed it up. Also, DLY processing will incorporate-area processing concepts. For DCF, five programs will be incorporated into one daily batch program (DCF03).	D:C:S:D and D:C:S:IS	Completed for DLY processing. January 1986 for GMF
5	15	25	Make program changes to RPS 05 to allow running concurrent cycles independently.	Programming changes made.	D:C:S:IS	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
5	16	25	Consider processing the first series of TRS runs on DIS master node.	Running time for TRS at the S.C.s was reduced by doing some sorts at NCC during August 1985. Further savings from additional sorts at NCC in January 1986.	D:C:S and D:C:S:D	Completed for first changes. Jan. 1986 for second changes
5	17	25	Develop an option allowing for multiple inputs in DLY01, DLY11, and DLY21 runs.	Multiple inputs to DLY 01, DLY 11 and DLY 21 accomplished and included in transmittal SD-0483-U.	D:C:S:D	Completed
5	18	1,2,3,4,5, 7,8,9,10,13, 14,15,29,32	Thoroughly test programs before transmitting.	All programs/program modifications are subject to programmer run testing during development. Not all programs/program modifications are subject to SAT. SAT does not have the resources to thoroughly test all programs. See 7.49.	D:C:S, D:C:M, D:C:H:ST	Continuous
5	19	2,3,4,5, 6,7,8,9,10, 29,32	To reduce tape drive use, continue ongoing optimization effort.	GMF rewrite took this into consideration. Also National Office Files Manager is pursuing analysis of major systems to reduce unnecessary tape usage.	D:C:S:ISA D:C:S:S	Continuous
				GUF tape drive usage being reduced.	D:C:S:B and D:C:S:S	Completed

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
5	20	2,3,4,5,7, 8,9,10,16, 32	Insure realistic retention periods for all tapes/disks being written.	Periodic review as IRM requires.	D:C:S D:C:M	Continuous
5	21	2,3,4,5,8	Insure that ECL coming from National Office does not use N option on tape assignments.	SIB's U-0057 and U-0102 discussed when the N-option should be used, i.e., alternate print files assigned to tape. Additionally, UNIVAC user notes 84-12, dated 30 November 1984, identifies cases where the N-option cannot be used: (1) on checkpoint tapes, and (2) open input with no rewind or open output with no rewind. D:C:S and D:C:M are in compliance.	D:C:M, D:C:S, and D:C:S:S	Continuous
5	22	1,2,3,4,5, 6,7,8,9,10, 17,32	Application programs should be developed whose console quieries/messages are understood relatively easily and held to a minimum.	Standards for COH development have been established in IRM 2553.31 Chap. 900. Software Standards Section will update the Structured Design IRM (2553.39) to include operator queries considerations.	D:C:H:S	1/31/86
				Operator intervention has been reduced for CAF.	D:C:S:D	Completed

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5	23	2,3,4,5,9, 10,32	In concert with Service Centers, National Office should determine which message categories shuuld be displayed on the console and to which there should be a response.	IRM 2553.31-92, Exhibit 900-6(Applications Documentation Handbook), dated 1/14/85, provides instructions for completing Form 3864D, Message List.	D:C:H:S, D:C:M, and D:C:S	Completed
5	24	6,7,8,9,10	Redesign programs processing a large volume of data to allow a bypass option for bad records.	GMF processing (DED01 and GMF01) rejects invalid blocks, (GMF05) BOOBS bad blocks, and (GMF07) will bypass bad records. TUR25W writes invalid records to an error tape. ERAS weekly subprogram has a bypass option. CCA30 records not passing validity checks are placed on error listing. Bypass options are being considered for some RPS & CAF processing.	D:C:S:IS D:C:S:D	Continuous
5	25	6,7,8,9,10, 32	Run interdependency should be eliminated to the extent possible to allow parallel or non-sequential run processing and greater scheduling flexibility.	Agree.	D:C:M and D:C:S	Continuous
5	26	7,9,10	Programs should have an entry in "Run Profile."	All programs should have a runprofile entry. SIB's U-86 and U-134 address runprofiles.	D:C:M & D:C:S	Continuous

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5	27	13	Procedures for internal checks (within the program) should be investigated. Program could dynamically assign the file to determine if it exists and when created.	Standards currently exist and dynamic assigns are allowed on an exception basis.	D:C:H:S	Completed
5	28	11	Source code should be stringently controlled. Changes to production programs should be applied as a set of corrections.	Various source code management systems are being researched.	D:C:H:S and D:C:S:S	Continuous
5	29	19,32	Explore to (further) standardize ECL and runstreams.	Programmer's Handbook provides guidelines for standard ECL.	D:C:S:S	Completed

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6	1	1,2,3,4,5 6,7,8,9,10	Provide service centers with copies of SRD documentation.	Software Release Documents are now being transmitted to the Service Center as new releases of systems software is installed.	D:C:S:S	Continuous
6	2	1,11,13	Keep COH updated and transmitted timely, allowing sufficient time to prepare COH's.	COH's will be updated.	D:C:M and D:C:S	Continuous
6	3	1,14,22	Insure booting procedures are current, contain adequate operator information and indicate responsibility.	Booting procedures are contained in the RPA Handbook.	D:C:S:S	Completed
6	4	22	Develop a composite SCRS schematic to assist Schedulers, RPA's & Branch management.	Schematic has been developed for Computer Branch training package.	D:C:U	1/1/86
6	5	22	COH's must provide complete explanation for all console messages; and furthermore, console operator must use the COH's.	COH's to be updated.	D:C:S	Continuous
6	6	12	Add a section to RPA Handbook concerning tape labels.	SIB U-0119 covers tape labels.	D:C:S:S	Completed

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6	7	23	Assure only essential information is written to operator's console.	Programs and CPB's will be updated.	D:C:S	Continuous
				This is set out in our Standards for COH development in IRM 2553.31. The Software Standards Section will stress this aspect in an updated Design IRM (2553.39). See 5.22.	D:C:H:S	1/31/86
6	8	23	COH must contain explicit variable ECL runstream information.	Programs and CPBs will be updated. This is included in the D:C:S:S programmer's handbook for Univac Programmers. It is also mentioned in COH IRM (2553.31).	D:C:S and D:C:H:S	Continuous Completed for D:C:H:S
6	9	23	Ensure all original (not restart) production runstreams and runstream variations have corresponding RUNPROFILE entries.	Memo sent to each Branch in D:C:M and D:C:S on October 5, 1984, directing them to comply with this recommendation.	D:C:M D:C:S	Continuous
6	10	26,32	Develop comprehensive Run Balancing Control Sheet for Service Centers.	See 6.20.	D:C:S	1/86

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6	11	25	Develop Run Checklist Sheet for Operators and RPA's (MSC has skeletal page which may suffice).	Request skeletal page from MSC for review. Send to SCs if appropriate.	D:C:S	1/31/86
6	12	1,2,3,4,5 7,9,10,11	Insure RPA Handbook is kept up to date.	Latest update is June 1985.	D:C:S:S and SCs	Continuous
6	13	2,3,4,5 7,9,10	When incomplete replacements to RPA Handbook are mailed, the shipment should be marked to indicate that it is not complete.	RPA Handbook is shipped complete always.	D:C:S:S	Completed
6	14	2,3,4,5 7,8,9,10	Each COH should contain a section showing all file and record layouts; format should be consistent.	Disagree. CPB contains file and record layouts.	D:C:H:S	Completed
6	15	2,3,4,5, 6,7,8,9, 10,29	COH's should provide RPA's with all available error information.	IRM 2551 provides necessary requirements.	D:C:H:S	Completed
6	16	2,3,4,5	Program schematics should be included in COH's -- not in separate documents.	Disagree - COH are for Computer Operators and they do not need schematics. Schematics are contained in CPB's.	D:C:H:S	Completed
6	17	2,3,4,5,6, 7,8,9,10	Assure accuracy of information provided Service Centers in schematics and COH's.	Reviewed only for systems subject to SAT, otherwise applications areas must assure.	D:C:H:ST D:C:S D:C:M	Continuous
6	18	2,3,4,5,6, 7,8,9,10	Service Centers should use multi-thread verify; alternatively, National Office should distribute information to Service Centers documenting errors and detailing corrective steps to take when errors occur.	Program DBU92 replaces the TIF verify. COH documents errors and corrective steps.	D:C:S:S	Completed

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6	19	2,3,4,5,6, 7,8,9,10,14	Publish and maintain a single document containing all general operator procedures and appropriate references to COH's and Sperry documentation.	D:C:S:S drafting an operator handbook.	D:C:H:S D:C:S:S and D:C:U:S	7/86
6	20	2,3,4,5,6, 7,8,9,10,32	National Office should provide Service Centers with balancing procedures and guidelines to follow if balancing procedures indicate error.	Run to Run balancing procedures for the pipeline system are under development and will be issued in the IRM by 1/86. IDRS balancing procedures are being standardized and fully documented in the COH's. Further improvements and automation efforts planned.	D:C:H:S D:C:U:S and D:C:S:S	1/86
6	21	2,3,4,5, 6,7,8,9,10, 13,23,32	Insure that information used for balancing is identifiable readily; operations prefers displaying block counts on console.	Block counts are displayed for interchange tapes. Changes to PCIOS being explored.	D:C:S:S and D:C:U:S	1/87
6	22	2,3,4,5,6, 7,8,9,10	As quickly as feasible, ascertain that all runs provide internal balancing.	See 6.20	D:C:M and D:C:S	Continuous
6	23	2,3,4,5,6, 7,8,9,10,32	National Office should provide a standard schedule to all Service Centers.	Disagree - N.O. can establish general priorities.	D:C:U	Completed
6	24	24	Use the COH checklist to ensure that COH is complete.	Use the checklist contained in the COH Task Force Study.	D:C:S D:C:M	Continuous

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6	25	29	RPA Handbook on Sort Assigns is inadequate.	This has been updated with a 7/14/85 publication date.	D:C:S:S	Completed
6	26	29	COH's need better information regarding where to find run controls which specify volumes of records into assign algorithms.	Run controls are included in run description documentation. (CPBs) as required by IRM 2553.	D:C:H:S and D:C:U	Completed
6	27	1	Provide Sperry technical bulletins onsite.		Sperry	
6	28	1,2,3,4,5, 6,7,8,9,10, 11	Publish and maintain a single Sperry document containing error codes presently spread throughout several manuals. Should include corrective action.		Sperry	
6	29	3,4,7,10,14	A central library should be established and orgenized.		Service Centers	
6	30	2,3,4,5,6, 7,8,9,10	Distribution of Sperry Manuals to SC's be restricted to applicable documents or contain statement of relevance to SCRS.		Sperry	
6	31	2,3,4,5,6, 7,8,9,10,11	Relevant portions of the FSP's should be included in the COH's.	Disagree - FPS's are analysis documents and are not needed by operators.	D:C:H:S	Completed
6	32	7,9,10	Provide project/project telephone list to SC's.	Disagree - Command Post will receive all calls from S.C.s.	D:C:U	Completed

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6	33	3,4,7,9,10	A layout of switch setting should be incorporated into operator's handbook showing different load paths.	Jump key settings were incorporated in RPA Handbook. Operator Handbook will include same.	D:C:S:S	7/86
6	34	6,8,13	Develop a program submission/suggestion form to preclude solving of "local" needs in 10 different ways; with feedback to all SC's.	IRM 2767 requires submission of local programs on the TIS (Zilog).	D:C:S:S	Completed
6	35	7,9,10	Review the current problem and error notification forms.	SEN and PE forms reviewed.	D:C:S:S	Completed
6	36	7,9,10,11	Provide microfiche of OS 1100.	Tapes sent to Data Center for microfiche.	Sperry	Completed
6	37	13	Insure that runstreams in the ECL file have documentation that tell what files are assigned dynamically.	SIB is being developed.	D:C:S:S	11/85
6	38	2,3,4,5,6, 7,8,9,10,30	COH's need to include rerun capability information.	IRM 2553 updated as a result of COH study to more specifically address reruns. SIB being developed.	D:C:H:S and D:C:S:S	11/85
6	39	11	Sperry should provide IRS a monthly list of undelivered manuals.		Sperry	
6	40	11	Programmer Guides and Programmer Reference Manuals should be provided.		Sperry	

SCRS ACTION PLAN

December 03, 1985

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
6	41	11	Prepare for wide distribution a summary of IRS written Sperry documentation.	D:C:S:S will prepare a memorandum for wide distribution indexing the relevant SIBs.	D:C:S:S	11/1/85
6	42	11	The tape and disk boot path document should be included in operator's guide.	Documentation is in RPA Handbook. Operator Handbook will also include this information.	D:C:S:S	7/86

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	1	1,2,3,4,5 9,10	Clearly define the role of the DBA.	Defined in position description.	D:C:S:S	Completed
7	2	1	Clearly define the role of the CPE.	Definitive role provided to each SC.	D:C:H:P	Completed
7	3	1,11	Duties and priorities of on-site Sperry Analyst must be defined.		Sperry & SC	
7	4	1,32	Service centers should verify the transmittal document and ascertain that the transmittal is complete prior to implementation.	Review IRM 2780 procedures. Review Service Center operations.	D:C:U	Completed Continuous
7	5	1,32	Develop procedures to collect programs affected by a transmittal only one time.	Disagree - study has shown this to be undesirable.	D:C:S:S	Completed
7	6	1	Allow unrestricted access to facilities for those CE's permanently assigned on-site.	IRM 2740, Security of Computer Operations, has been reviewed. The restricted access will remain as it is.	D:C:U	Completed
7	7	22,32	Establish quality control procedures assuring integrity of program transmittal process.	Standards are contained in the IRM. Review SCP mechanism.	D:C:U:S	Completed/ Continuous

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	8	22	Each site should establish a procedure for schedulers to input daily and EOD jobs into backlog immediately prior to realtime termination.	Disagree - while this would be faster, SC's should use REX. Using backlog would not permit run profiles.	Service Centers	
7	9	22	Prohibit programmers from using production data bases for testing purposes.	RPA Handbook, Chapter 10, contains instructions for Service Center Security Administrators regarding restrictions of live data base by those needing test data.	D:C:S:S	Completed
7	10	22	Develop procedure for downing RPS node during early afternoon to permit early commencement of SCRS daily processing.	Disagree - not necessary to down RPS to begin SCRS processing.	D:C:H and D:C:S	Completed
7	11	12,32	Increase the number of hours in which there are National Office personnel present at their duty stations to support Service Center personnel. Command Post should be staffed on weekends by those responsible for weekend runs.	Command Post will provide around the clock coverage.	D:C:U D:C:U	1/17/86
7	12	12,28,32	Establish disaster recovery procedures.	Disaster Recovery procedures will be developed.	D:C:S, D:C:U D:R:R, & PM:S:SD	6/86
7	13	12	Insure run completions and reduce time required for runs.	Operators should insure that runs are completed. Aborts/reruns should be documented for review by Regions and N.O. Continued efforts in program optimization will reduce time required for runs.	D:C:U, Service Centers and Regions	Continuous

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	14	27	National Office should evaluate all inventory and reporting requirements imposed on the Computer Branch at Service Centers; furthermore, National Office should re-evaluate following successful SCRS implementation.	An analysis of current reporting requirements has been recently completed and is currently being reviewed to determine future reporting requirements. Implement the Computer Branch Accomplishments Reporting System (CBAR) to facilitate reporting.	D:C:U	12/16/85
7	15	27	National Office, Regional Offices, and Service Centers should monitor programming aborts and reruns.	User Assistance and Capacity Management Office has reinstituted the rerun report to monitor this.	D:C:U	Continuous
7	16	27	National Office, Regional Offices, and Service Centers should monitor efficiency of SCRS.	This has been an ongoing effort.	D:C:U	Continuous
7	17	25	Reduce errors from concurrent running of daily, weekly, and batch jobs; consider system similar to date card process on 2050, "The PROC File."	The Run Executive (REX) allows the operators to change the date for multiple runnings of daily, weekly, and monthly batch jobs. The P-DATE parameter can be adjusted as needed for each special running of a job. Additional information is available in the RPA Handbook, Chapter 7.	D:C:S:S	Completed

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	18	25	Conduct a review of disk drive and tape drive requirements and allocations for all Service Centers.	Files Manager in Data Base Section is reviewing disk drive and tape drive requirements. SCRS Hardware Section monitoring U30 tape drive requirements.	D:C:H:E & D:C:S:S	Continuous
				The equivalent of 176 disk drives (44 model 8480 drives) and 52 disk controllers have been ordered and will be installed by April 1986.		4/86
7	19	25	Any Phase II carry-over project which has new run identification must be identified to deletion of old, unused elements.	Automate transmittals to delete element.	D:C:S:S	Completed
7	20	2,4	Establish priorities for RPA's.	Will be redefined under SC Computer Branch Reorganization.	D:C:U	Contingent upon implementation of recommendations.
7	21	2,3,4,5,6 7,8,9,10,11	Provide Service Centers with a single performance reporting system.	See 7.14.	D:C:U	12/16/85
7	22	1,2,3,4,5, 7,8,9,10	Inform all Service Centers when program is placed on hold.	Command Post will inform other Service Centers.	D:C:U	Continuous
7	23	2,3,4,5, 7,9,10,32	Provide advance warning regarding transmittals requiring changes to operating procedures.	Agree. In addition, D:C:U must be notified.	D:C:M and D:C:S	Continuous
7	24	2,3,4,5, 7,8,9,10, 32	National Office-must verify transmittal contents to avoid duplicates prior to sending it to Service Centers.		D:C:M and D:C:S	Continuous

SCRS ACTION PLAN

December 03, 1985

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	25	2,3,4,5,6,7,8,9,10,11,13,15,32	National Office should consider establishing a problem resolution center, or "command post," until SCRS and all major SCRS applications are completed, including all needed documentation.	Command Post established.	D:C:U	Completed
7	26	2,3,4,5,7,8,9,10,32	Implement a standard problem reporting/resolution system.	Standard Reporting system is in place and refinements are being made for upcoming processing year.	D:C:H:ST D:C:U	1/1/86
7	27	2,3,4,5,7,8,9,10,32	National Office must inform Service Centers of known problems rather than allowing them to occur at each Center first.	Command Post will inform Service Centers.	D:C:U	Continuous
7	28	2,3,4,5,6,7,8,9,10	Establish a National Office group to visit Service Centers and become familiar with their problems.	D:C:U:S will conduct periodic on-site program reviews. On-site assistance by support personnel will continue on an as needed basis.	D:C	Continuous
7	29	2	Define clearly procedures for control group.	Addressed during Computer* Branch Study.	D:C:U	Contingent upon implementation of recommendations.
7	30	2,3,4,5,9,10	Define ECL change responsibilities for operators and RPA's.	Should be included in COH's.	D:C:M, D:C:S, and D:C:U	Continuous

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	31	2,3,4,5,6, 7,8,9,10,14	Furnish a status board which is readable from any system console.	Submitted requisition for Data Graphics System for all SCs and NCC. Delivery scheduled end of year.	D:C:H	12/31/85
7	32	2,11,32	Provide SAT its own system.	Univac 1100/82 had been designated primarily for SAT. The system and the related resources are not always made available to SAT due to other priorities.	D:C	Continuous
7	33	5,7,9,10	Sperry Analyst should attend Computer Branch status meetings.	The Sperry support personnel will attend any meetings that local IRS management requests.	Sperry	
7	34	1,2,3,5,6, 7,8,9,10,11	CE's should attend Computer Branch status meetings.	Customer Engineering will attend meetings at least weekly at the invitation of the local IRS management.	Sperry	
7	35	5	Maintain good customer relations at all levels.	Sperry has, and will continue to maintain, good relations at all levels.	Sperry	
7	36	1	Provide a pleasant working environment within the computer room.		Service Centers	
7	37	1	Review site layout to insure compliance with minimum disk clearance requirements.		Service Centers	

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	38	14,15,32	Provide more information in transmittals as to what areas are affected and any instructions to back out changes.	IRM provides standards; S.C. Systems Control Point function should inform N.O. when information is not sufficient.	D:C:M and D:C:S	Continuous
7	39	6,7,8,9,10	Provide for follow-up review of audit recommendations implemented.	D:C:U will follow-up after implementation in normal operational review.	D:C:U	Continuous
7	40	7,8,9,10	National Office should choose best method for optional runs.	Disagree - options are built in to provide flexibility. Service Centers choose best method to fit their specific situation.	D:C:U	Completed
7	41	13,16	Standards and guidelines should be established for ECL formats as required by STAR 1100 and require adherence to these standards.	SIB issued 10/10/85.	D:C:S:S	Completed
7	42	15	National Office provide guidelines for forecasting need for data base expansion reorganization.	Program DBU92, size report from DBE and FM100 all provide statistics for reorganization.	D:C:S:S	Completed
7	43	15,32	Track the status of implemented transmittals.	Command Post will track.	Service Centers, D:C:U	1/17/86
7	44	11	Sperry SA at National Office should not be initial contact for IRS Service Center personnel.	Command Post should be initial contact point.	D:C:U	1/17/86

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Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	45	11	Sperry must decide upon a management structure to support IRS.		Sperry	
7	46	11	Provide adequate telephone lines for SA's.		Service Centers	
7	47	11	SA involvement in Tiger Team assignments should be minimal.		Sperry	Completed
7	48	11	SAT should have responsibility for transmitting programs.	Disagree - D:C:H:ST does not have the training or resources available.	D:C	Completed
7	49	11,31,32	All applications and modifications should be subjected to SAT.	Disagree - D:C:H:ST does not have the resources to test all programs. Also, impractical because program changes cannot wait for all programs to be tested.	D:C:H:ST	Completed
7	50	11	Develop procedures to ship needed data rapidly for testing from Service Centers to National Office or NCC.	High speed MITRON or SAT controlled shipments using Federal Express, Courier, etc., are being used.	D:C:H:ST	Continuous
7	51	11,32	A formal testing procedure should be set up for each product in use at IRS.	IRM 2600 which covers standardized testing procedures is currently being updated. IRM 2553.41, Testing Guidelines, has been issued and is being used for training by D:C:S.	D:C:H:S and D:C:H:ST	2/1/86

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	52	11	Standards Branch should be more closely aligned with branches writing software applications.	Disagree - the ADP Standards Branch was formed to develop ADP Standards for the Service. In order to accomplish and develop uniform standards, they should be independent of the applications areas.	D:C	Completed
7	53	11	Systems performance data should be continuously gathered.	A systems monitoring package was sent to all Service Centers in August 1985. Tapes will be submitted periodically to update N.O. data base. In addition, the Systems Monitoring Section will use CBAR to gather performance data.	D:C:U	Continuous
7	54	11	CPE recommendations for performance improvements should be implemented.	Recommendations will be reviewed individually and implemented.	D:C:M and D:C:S	Continuous
7	55	11	Program Development System should be located where the programmers are located.	Disagree - PDS need not be physically located near programmer. Access can be accomplished via terminal.	D:C:H, D:C:M, and D:C:S	Completed
7	56	11	IRS should decide if each Service Center functions independently or if National Office is central controlling organization.	Organizationally, the Service Centers are under the Regional Commissioners. Functional guidance is provided by the appropriate Assistant Commissioner.	D:C	Completed

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	57	11	National Office organizational structure should be examined to eliminate any organizational barriers.	The N.O. is organized on a functional basis and is continually under review. As of October 1, 1985, responsibility for computer room operations transferred from D:R to D:C.	D:C	Completed
7	58	11	Improve the work environment at the New Post Office (NPO Building).	In process of identifying safety and service deficiencies.	D:C	Continuous
7	59	11	Insure sufficient National Office coverage on Mondays and Fridays.	AWS policy should be reviewed. Also see 1.9 and 7.11.	D:C	Continuous
7	60	11	Secure tapes should be accessible.	Reviewed during Computer* Branch Study. 24 hours per day/7 days per week library coverage will make tapes accessible.	D:C:U	Contingent upon implementation of recommendations.
7	61	11,32	Tape handling requirements for NCC should be developed.	Included in IRM 2000.	D:C:U	Completed
7	62	11	D:C:S:S should have terminal access to the 1100/82 at NCC.	RDS submitted to procure necessary equipment.	D:C:S	
	63	11	Program Development System and laser printer should be located at the same site.	Disagree. We do not see any need to move the laser printer.	D:C:H, D:C:M, and D:C:S	Completed

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	64	18,32	Transmittals should attempt to explain the reason for implementation or change.	Clear, concise transmittal language is continuously emphasized by management.	D:C:M and D:C:S	Continuous
7	65	17,20	Establish a single point of contact between operators and other Branch functions and restrict access to console area when errors occur.	Reviewed during Computer* Branch Study.	D:C:U	Contingent upon implementation of recommendations.
7	66	17	Investigate means to stabilize temperature and humidity and to establish a warning system when deviations occur.	Recommendations will be forwarded by 1/1/86.	D:C:M:E	1/1/86
7	67	31	End of year processing instructions must be prepared and issued to the field as early as possible to ensure a smooth changeover to 1986 procedures and programs.	Briefing teams will visit each Service Center.	D:C:M and D:C:S	11/7/85
7	68	31	Provide for paper backup capability for pipeline input of IDRS type transactions for use in the event of a serious disruption to realtime availability.	Provide paper input processing for some critical transactions. Must first determine which transactions are most critical to have dual input capability. A careful analysis must be performed to determine the impact to DIS and GMF capacity if work is transferred from IDRS to a paper backup system.	D:C:S:I D:C:S:IS D:C:S:B	1040X/1120X 11/85 -- DP Adjustments 7/86 -- CR Transfers 1/87 -- Debit/Credit TR 7/86 -- DIS capability for above 1/87
7	69	31	Adequate IDRS availability is critical.	Regions and National Office should monitor	D:C:U and	Continuous

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SCRS ACTION PLAN

Cat Nbr	Seq Nbr	Source Doc Nbrs	Recommendation	Action	Resp Organ	Target Date
7	70	32	Review current schedule of postings to the master file to determine if current cut-off can be adjusted to provide the Service Centers with more timely turnaround of updates.	Disagree - adjusted cycles would not change volume. One week turnaround for updates is not the primary problem. We will not pursue this recommendation at the present time.	D:C:U	Completed
7	71	32	The timing of transmittal releases should be standardized to determine if changes can be implemented on a regularly scheduled basis.	A study group has been formed in Software Division to review the transmittal process and recommend improvements. Recommendations will be issued by 1/16/86.	D:C:S	1/16/86

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List of Source Documents

Source Document Number	Title of Source Document
1	IRS-Sperry Audit Report -- MSC
2	IRS-Sperry Audit Report -- ANSC
3	IRS-Sperry Audit Report -- BSC
4	IRS-Sperry Audit Report -- KCSC
5	IRS-Sperry Audit Report -- PSC
6	IRS-Sperry Audit Report -- ATSC
7	IRS-Sperry Audit Report -- AUSC
8	IRS-Sperry Audit Report -- FSC
9	IRS-Sperry Audit Report -- OSC
10	IRS-Sperry Audit Report -- CSC
11	IRS-Sperry Audit Report -- NCC
12	Final Report of Sperry Temporary Support Team -- MSC
13	Final Report of Sperry Temporary Support Team -- KCSC
14	Final Report of Sperry Temporary Support Team -- PSC
15	Final Report of Sperry Temporary Support Team -- FSC
16	Final Report of Sperry Temporary Support Team -- BSC
17	Final Report of Sperry Temporary Support Team -- AUSC
18	Final Report of Sperry Temporary Support Team -- OSC
19	Final Report of Sperry Temporary Support Team -- ATSC
20	Final Report of Sperry Temporary Support Team -- ANSC
21	Final Report of Sperry Temporary Support Team -- CSC
22	Howard Simpson MSC Trip Report
23	Phase III Concerns from MSC (Memo from D:C:S & D:C:M dated October 5, 1984)
24	Computer Operator Handbook Task Force Report
25	Observations of SCRS Phase III Weekend Updates from OSC
26	Study of the Effects of SCRS Phase III Processing on MSC Computer Branch (D:R:R Memo to D:C:S)
27	Study of the Effects of SCRS Phase III Processing on MSC Computer Branch (D:R:R Memo to all ARC's (D) and Service Center Directors)
28	Study of the Effects of SCRS Phase III Processing on MSC Computer Branch (D:R:R draft memo to D:C:M)
29	Dan Capozzoli FSC Trip Report, titled Some Current Problems 02/06/85
30	Second Report of Sperry Temporary Support Team--PSC
31	1986 Filing Season Plan Study Group Recommendations
32	EDS SCRS Recommendations

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IV. Other Improvements from the DIS/GMF Data and Systems Controls Task Force

1. Computer Room
2. Transcription
3. Miscellaneous
4. RPS
5. Data Controls

The following 63 recommendations and action items emanated from an internal task force effort to evaluate the effectiveness of existing data and systems controls in our returns processing pipeline.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
1.0	COMPUTER ROOM			
1.1	There is no recovery process on the GMF.	D:C:S:IS	5-1-85	Completed 5/1/85, thru Sperry Developed Utility Program.
1.2	A bi-weekly listing of DIS and GMF transmittals is to be issued.	D:C:S:IS	on going	To be issued to control point and Data Conversion Branch beginning 4/15/85.
1.3	The entire procedures for issuing DIS/DED transmittals needs to be revamped. Specific instructions are needed for the distribution of these transmittals.	D:C:S:IS	6-7-85	Completed.
1.4	A "clearing house" concept is to be developed for all programs developed by the Centers, i.e., LM-124.	D:C *(D:C:S:IS)	1-1-86	
1.5	An IRM needs to be developed for Computer Branch schedulers. In particular, there is a lack of information (in the COH also) regarding the procedures for handling the Deposit Ticket Tape before shutdown.	D:C:S:IS	1-1-86	Note: Also update COH (Doc. 6932) with expanded Deposit Ticket Tape procedures.

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
1.6	The "hub center" concept should become a standard policy for Computer Services.	D:C *(D:C:S:IS)	6-1-85 1-1-86	Completed. The memo has been submitted and D:C:S:IS is awaiting final approval. In the interim, Computer Services is compiling a list of "hub" centers for each project. The list will be included in the December report.
1.7	Permanent procedures are needed for processing requests for tape reruns.	D:R:R:M	6-30-85	Completed.
1.8	Review the possibility of moving some of the Service Center's operating reports from the Univac to another computer system.	D:C:M	1-1-86	Completed.
1.9	Run-to-run balancing for DIS and GMF should be automated. Note: A special task force will be created to analyze the centers' needs for automated balancing and to implement the changes.	D:C:S:IS	1-1-86	
1.10	Create an IRM for run-to-run balancing in the Computer Room for DIS and GMF.	D:C:S:IS	1-1-86	

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
1.11	Establish a quality review system for balancing operations.	D:R:R:M	1-1-86	The Service Center Quality Improvement Taskforce is taking a look into establishing a quality review section in the Computer Branch.
1.12	Can the centers process RPS payments via electronic transmission to NCC to alleviate tapes and lost reels?	D:C *(D:C:S:IS)	1-1-86	
1.13	NAS 6650 Operational guidelines must be incorporated into the COM for the NAS system.	D:C:S:S	6-1-85	Completed.
1.14	Procedures for the Computer Room to notify Files of the timing of GMF runs must be incorporated into a manual.	D:C:S	1-1-86	
1.15	DIS end of shift procedures should be automated.	D:C:S:IS	1-1-86	Completed. End of shift procedures for DIS have been automated and simplified. Implemented in September.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
2.0	TRANSCRIPTION - DIS/RPS			
2.1	The use of the valid override key can distort DIS figures. A method for monitoring the incorrect use of this key must be developed, perhaps via ERS or the new Incentive Pay System.	D:R:R:M *D:R:R:I	7-1-85	Completed. Current Program Analysis System (PAS). All centers - daily identifies misuse of valid override key. All centers are doing a daily analysis of the statistics.
2.2	DIS/RPS must automatically identify the situation when data from the nodes does not get transmitted to the master node. This automatic procedure would eliminate the item by item balancing that is now being done in DIS and RPS. Note: This effort will be considered by the special multi-functional task force referred to in item 1.9.	D:C:S:IS	1-1-86	Completed. The "Mismatch List" procedures and programs were transmitted in September 1985.
2.3	If DIS/RPS cannot be programmed to automatically identify situations where data is not transmitted to the master node, then the manual balancing procedures must be incorporated into the general DIS IRM D3(24)(37)0.	D:C:S:IS	5-1-86	Completed. A decision has been made to revise the existing "Age List" to reflect exactly what is on the node.

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*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
2.4	Ghost blocks are in existence. IRM D3(24)(37)0 will be revised to include how to identify a ghost blocks; it already states when these can occur and how to avoid them.	D:C:S:IS	[illegible]	Completed.
2.5	The Age list shows work partially OE or KV which should be completed; TCAM was to correct this.	D:C:S:S	6-1-85	Completed. TCAM has been corrected and procedures issued to check the TCAM queue. These procedures have been added to the NAC COM.
2.6	MFT 30 can't be input for Form 1040 payment reinputs.	*D:R:R:R D:C:S:IS	1-1-85	Completed. GMF Program now allow Form 1040 payments to be reinput without an MFT in the block header.
2.7	Is the program in place which will not allow more than 100 items in a block? If not, it must be implemented.	D:C:S:IS	1-29-85	Completed. This condition is now identified in DED. Transmittal 85SIS-005-D dated 1/29/85.

* [illegible] responsibility for follow-up action.

DIS/CMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
2.8	There are problems with the DIS security file regarding the maximum number of entries available.	D:C:S:IS	6-1-85	Completed. Instructions for using the terminal number as a security ID number have been included in IRM [illegible], dated [illegible]. This change makes the number of available entries into the system infinite. We cannot attach a copy of the IRM change page.
2.9	The cursor starts at different place on IMF & BMF depending on the use of a check digit or name control. This must be standardized.	D:R:R:I *D:R:R:E D:R:R:R D:R:R:IM D:C:S:IS	10-1-85	Completed. D:C:S has agreed to make change for 1-1-86.
2.10	A good quality review system needs to be developed for DIS.	D:R:R:M	1-1-86	An MDS (#OT 85-[illegible]) was submitted on 7/17/85 for a DIS Quality Review system.
2.11	Create a manager's handbook that will contain procedures for operating DIS and controlling data through DIS.	D:C:S:IS	1-1-86	Completed.

* Responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
2.12	Determine if the serial number should be required to be entered by DIS on all documents (currently required on IMF only).	D:R:R:E	6-1-86	Completed. All returns will require entry of the serial number. Change to be made by 1-1-86.
2.13	On IMF returns, the received date is entered once and generated through all other documents in the block. The same procedure should be created for all BMF returns.	*D:R:R:E D:R:R:R D:R:R:I D:R:R:IM	10-1-86	Completed. This item will not be implemented. The IMF program will be discontinued and therefore, the BMF program will not be instituted.
2.14	The "erase EOF" and "erase input" keys on the DIS terminal have to be addressed; in PSC they have caused more problems than the mode key.	D:C:S:IS	7-1-86	Completed. This change will be included in transmittal 85SIS-022-DIS. It is scheduled to be hubbed in AUSC in mid August.
2.15	Four-Phase is to change the mode key to require a second entry before it is activated. (2/22 memo, item 1)	D:C:S:IS	7-1-86	Completed. See response for 2.14 above.
2.16	IRM D3(24)(37)0 will be updated to reflect the new mode key procedures.	D:C:S:IS	7-1-86	Completed. See response for 2.14 above.

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
2.17	Copy 60 procedures - when it should be done - must be incorporated into the COH, Doc. 6934.	D:C:S:IS	1-1-86	This item is related to items 1.5 and 8.8. All will be resolved by 1-1-86.
2.18	DIS and GMF should be programmed to process various "IDRS only" transactions, i.e. doc code 54 adjustments, CP 2000's, and CAWR.	D:C:S:IS	1-1-86	RRC's for various processes were submitted. Implementation dates are not yet firm.
2.19	Revised the sort of the SCRS Age Listing to: 1) node number; 2) batch sequence number; and 3) DLN.	D:C:S:IS	7-1-[illegible]	Completed. Same as response for 2.18 above, but no transmittal number determined yet.

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
3.0	MISCELLANEOUS			
3.1	IRM 3(10)(72)0 and IRM 38(43)0 procedures needed to require the top portion of a check to remain attached to the check if the check is going to the unidentified area. Current IRM procedures require all checks to be "clean".	D:R:R:I D:R:R:R	6-1-86	Completed.
3.2	There are problems with dispersing documents immediately after pipeline processing without being sure payments have posted. In particular, Underreporter documents are sent to that unit, are removed from the "block", and put in case files; it is very difficult to retrieve these documents if they need to be reinput.	D:R:R:IM	1-1-86	To alleviate this problem, D:R:R:R will revise IRM 38(43)0, (Clearing and Deposit Manual) to incorporate a special blocking series. Instructions will state that all blocks are to be held for two days to be sure that all BOOB conditions and Unpostables are resolved. This will ensure that payments have posted before documents are sent to the Underreporter Function and block integrity is lost.

*[illegible] responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
3.3	Should the Unidentified Remittance area be able to generate MFTRA requests through IDRS? If so, can the appropriate command code be placed in their file?	D:R:R:R	4-1-85	Completed. Instructions are included in IRM 38(43)0 for SCRS/MRS command codes, including MFTRA.
3.4	The Incentive Pay System should be modified to address the particular capabilities and requirements of DIS, i.e., operators must correct their errors, erroneous use of the valid override key.	D:R:R:M	6-30-85	Completed. These issues will be incorporated into the DIS Quality Review system (see item 2.1). Since Incentive Pay is a result of Quantity and Quality, the desired result will be achieved.
3.5	Procedures for the Unidentified Remittance operation must be incorporated into an IRM 38(43)0.	D:R:R:R	6-1-85	Completed.

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
4.0	RPS ONLY			
4.1	During RPS processing, items that are OE/KV'd and appear on the RPS listing do not agree in document count and/or money amount with reconciliation documents. VRFIX was to resolve this; it was to be issued on 2/28/85.	D:C:S:IS	3-19-85	Completed thru issuance of Transmittal No. SPI-008-DIS
4.2	Some 813 items do not show on printouts, but all items are included in the block total. For multiple items, there is a hardware problem which is to be approached by the CE when it occurs.	D:C:S:IS	3-19-85	Completed thru issuance of Transmittal No. SPI-008-DIS
4.3	Some 813's show a document count total greater than actual count. VRFIX was to resolve this problem; it was to be issued 2/28/85.	D:C:S:IS	3-19-85	Completed thru issuance of Transmittal No. SPI-008-DIS
[illegible]	During reconciliation, in RPS, the system identifies an out of balance error. When the correction attempt is made, the system then says there is no error.	D:R:R:R	6-30-85	Completed. This was a one-time occurrence in ANSC due to timing problems with RPS runs. This problem has not recurred in ANSC (or occurred in any other center) since May 1985.

* [illegible]sponsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
4.5	RPS Boob conditions that have incorrect money and item; only the money amount can be corrected. The procedures for handling this must be incorporated in IRM 3B(43)0.	D:R:R:R	6-1-85	Completed.
4.6	The RPS correction cards should able to correct RPS01 RPS05.	D:R:R.R	7-1-85	Completed. Procedures will be included in the 1-1-86 revision to IRM 3(23)(13)0.
4.7	Is there a better way to make our RPS payments, i.e., straight to NCC like FTD's?	D:R:R:R	1-1-86	An RDS has been approved for replacing the Remittance Processing System - better ways to process payments is the intent of replacing the equipment. Some of the features we are considering are "image lift" and electronic transfer of payments to banks. We feel these types of enhancements will reduce the current problems inherent in processing by tape.

*Primary responsibility for follow-up action.

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DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
4.8	Document 6932 (COH) will be updated with procedures for running the Deposit Ticket Tape prior to end of shift.	D:C:S:IS	1-1-86	
4.9	Reconciliation procedures regarding "XX" conditions must be incorporated into an IRM 38(43)0.	D:R	6-1-85	Completed.
4.10	Procedures for RPS operators to verify the DLN in the header must be incorporated into IRM D3(24)(133)0; include a reference to the "R" and "G" messages.	D:C:S:IS	6-1-85	Completed.
4.11	Procedures for reconcilers to verify documents 00, 20, and 99 must be incorporated into IRM 38(43)0.	D:R:R:R	6-1-85	Completed.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
4.12	Procedures for accessing RPS DIS for the Deposit Ticket Tapes Totals must be incorporated into IRM D3(24)(37)0.	D:C:S:IS	5-17-85	Completed.
4.13	Procedures for annotating the 813's in RPS with the node number must be included in IRM D3(24)(133)0.	D:C:S:IS	6-1-85	Completed.
4.14	A study should be conducted to determine the feasibility of procouring check-sorting equipment for all service centers.	D:R:R:R	10-1-85	The IRS and Financial Management Service of Treasury completed a joint study and pilot project on Check Sorting. It was determined that Check Sorting equipment should be procured for all centers and competitive bid procedures have been completed through initial proposals. The ADP funding reduction for FY 85 deleted funds for this project which is now in a suspense status.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
5.0	DATA CONTROLS			
5.1	Blocks (remit and no-remit) are appearing on the SCCF in BOOB status. D:R:R was to track the problem to see if the ANSC RPA's had researched the problem and also to see if CSC had identified the same problem.	D:R:R:R	1-1-86	Completed. This problem has been eliminated by the implementation of 100% key verification of block headers.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
5.2	More instructions are needed in IRM 3(17)(30)0 and 35(61)0 for requesting and using the CPL, current instructions are weak.	D:R:R:R D:R:R:IM	6-1-85	Completed. Additional instructions will be included in IRM 35(61)0, Files Management and Services, to be printed in August. These instructions will require the SC Files Function to hold blocks two cycles before returning overage blocks that do not appear on the current cycle proof listing to the Balancing Unit. Instructions added to IRM 3(17)(30)0, to be cleared next month. In the interim, we have contacted all service centers to discuss these steps. A memorandum to the field formalizing these instructions until the IRM 35(61)0 is issued does not appear to be necessary. All service centers reported they have taken necessary steps to request and use the CPL in the most workable manner to meet their needs.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
5.3	IRM 3(17)(30)0 needs instructions for recordation of new reel numbers; currently the information is passed on verbally.	D:R:R:R	1-1-86	Completed. The next revision to IRM 3(17)(30)0 will list some of the ways reel numbers are obtained.
5.4	Procedures in IRM 3(17)(30)0 not adequate for researching and resolving lost RPS items.	D:R:R:R	6-1-85	Completed. Additional procedures for reconstructing missing RPS Payments from Form RPS 813 will be added to IRM 3(17)(30)0, Revision for January 1986.
5.5	The service center balance/data controls IRM 3(17)(30)0 needs further instructions regarding exact steps to follow in order to balance.	D:R:R:R	1-1-86	Completed. Clarified balancing procedures will be incorporated in the 1-1-86 revision to IRM 3(17)(30)0.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
5.6	There are many BOOB conditions that used to go to balancing via a transcript to adjust SCCF; this has increased the BOOB inventory. In light of the overall concern regarding the inventories in the BOOB area, is it feasible to take the logic out of GMF-05 and put the transcript instructions back into the balancing IRM?	D:R:R:R *D:C:S:IS	6-30-85	Completed. For January 1986, blocks will not become BOOB P for three days after input. During this period, the data control function will pull the documents and attempt to establish or correct the record on the SCCF. If the block header must be corrected, the block will go to BOOBs in three days. Otherwise, the record is released to good tape or error processing and the documents are returned to the Document Perfection cycle control function.

*Primary responsibility for follow-up action.

DIS/GMF Data and Systems Controls Task Force
Action Plan

Item Number	Title and Action(s) Required	Responsible Organization	Completion Date	Status/Comments (Include action taken to complete item)
5.7	Procedures for reconciling the RPS MCR's to the RPS transaction records must be incorporated into IRM 3(17)(30)0.	D:R:R:R	6-1-85	Completed.
5.8	Procedures for researching the TDCS must be incorporated into the data controls IRM 3(17)(30)0.	D:R:R:R	6-1-85	Completed. Procedures for handling out of balance conditions regarding the TDCS will be incorporated in the 1-1-86 revision of IRM 3(17)(30)0.
5.9	Procedures for DOOB code 9 correction must be incorporated into IRM 3(40)(37)0.	D:R:R:R	6-1-85	Completed. Change to be included in the 1-1-86 revision of IRM.
5.10	Blocks are established on SCCF with 100 items, they show up in DOOB status with 90 items; they actually have 90 items. It takes two days to process the correction for this type of error - two steps. Procedures are needed in IRM 33(43)0.	D:R:R:R	6-1-85	Completed.

* Responsibility for follow-up action.

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Internal Revenue Service
memorandum

date: December 19, 1985

to: Deputy Assistant Commissioner (Inspection) I

from: Director, Internal Audit Division I:IA

subject: Declassification of "Official Use Only" Document

Attached is a copy of the Internal Audit Report, Reference Number 060213, Improving the Returns Processing Activity in the IRS which has been requested by the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives. This report has been previously reviewed by the Disclosure Officer in Internal Security for release to GAO.

This report is classified "Official Use Only" and must be declassified before release.

The authority to declassify "Offical Use Only" documents is restricted by Delegation Order 89 to the official authorizing the original classification, a successor in that capacity, or a line supervisory official of either. Please review the attached report and indicate if you concur as to its declassification.

Attachment

Concur E. Keith Reed

Internal Audit Report

Department of the Treasury
Internal Revenue Service

Office of the Assistant Commissioner (Inspection)

Internal Audit Division

Improving the Returns Processing Activity in the IRS

Office of the Director
Internal Audit Division

Official Use Only

Reference Number
060213

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INTERNAL AUDIT REPORT
IMPROVING THE RETURNS PROCESSING ACTIVITY IN THE IRS

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Detailed Audit Objectives and Scope of Review	Attachment I
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INTERNAL AUDIT REPORT
IMPROVING THE RETURNS
PROCESSING ACTIVITY IN THE IRS

DIGEST

In 1985, the Service made many changes to its computer systems for processing tax returns and related documents and suffered major processing problems in implementing these systems.

The primary new system was the Service Center Replacement System (SCRS). SCRS replaced the mainframe computer system used to process approximately 182 million tax returns and related documents annually and provides research capabilities of tax accounts (IDRS) for the 10 service centers and 63 district offices and their posts-of-duty. In addition to replacing the mainframe, computer programs under SCRS were converted from assembly language to COBOL to conform with Federal standards.

Other peripheral systems were also implemented or required major modifications at this time. These included the Remittance Processing System (RPS), Distributed Input System (DIS), Error Resolution System (ERS) and the Generalized Unpostable Framework (GUF).

The Service made all of these changes in a relatively short period. Many actions required in major system conversions were not fully accomplished. These actions included, but were not limited to: systems acceptability testing; parallel simulation; training for programmers, computer operators and users; systems documentation; and, development of user operations manuals. Thus, the Service was not fully prepared to begin the 1985 processing year. As a result, the Service was unable to correctly process the simplest of tax returns at the beginning of the 1985 processing year.

In an effort to reduce the resulting backlogs, resources were concentrated on processing individual tax returns. This effort to timely issue refunds adversely affected other service center functions. Specifically, computer resources were used to process tax returns rather than support IDRS. In addition, various service center document control programs and management information reports were either delayed or not generated.

Inordinate inventories of unprocessed tax returns, tax payments and tax adjustment cases also occurred. Certain business tax returns and tax payments were not timely processed which caused erroneous notices. These notices either incorrectly advised taxpayers that they had not filed tax returns when they had already filed or erroneously billed taxpayers when they had already made payments. Many notices generated were not mailed because they were manually identified as being erroneous. This further increased problems because follow-up actions are required when notices are stopped.

Other processing problems occurred that related to the new hardware and software. First, returns and/or payments input through the DIS and assumed to be processed remained in the system unprocessed. This situation went unnoticed until early February 1985. Consequently, many payments were not timely posted to taxpayers' accounts. Second, magnetic tapes containing payments and/or tax returns were found unprocessed at several service centers. This occurred because of a breakdown of controls in the computer room and a lack of experienced computer operators familiar with the SCRS.

Erroneous notices became so prevalent that the Collection Division delayed the issuance of all their business master file notices for the first major delinquency analysis of the year (over 1,000,000 notices nationwide principally for the tax periods ended December 31, 1984). This allowed the service centers additional time to process tax returns and post tax payments which reduced the number of erroneous notices being released. There are many erroneous notices still being released. Although delaying the notices was necessary, the Service's overall compliance program has been adversely affected.

The Service has corrected many of the problems encountered during the processing season. It has also established various study groups to provide for an improved 1986 processing season. There are still many areas that require additional corrective action. While our review concentrated primarily on the Individual Tax Program, several recommendations are also applicable to the other service center programs. These recommendations are summarized below and presented in detail in the report.

- Management needs to improve the overall system designed to implement, control and evaluate service center programs. An implementation plan should be utilized each filing season. This plan should ensure that manuals are complete, programs are adequately tested, training is complete, and forms are printed and distributed. Also, the Service Center Control File should be enhanced to provide management with processing status information rather than statistical data. Finally, responsible officials should be specifically designated to ensure program completions (report pages 1 through 8).
- Processing of the tax returns also needs to be improved by correcting specific operational and systemic problems. These improvements include clarifying manual procedures; utilizing data verification techniques; ensuring that document control reports are timely generated; and, perfecting and/or improving specific computer routines. Implementing these recommendations would improve deposit activities, simplify error corrections, and reduce error inventories (report pages 9 through 18).

We will issue separate reports on other 1985 processing activities as the reviews are completed, e.g., Computer Operations, Taxpayer Correspondence/Adjustments, and Federal Tax Deposit (FTD) Processing.

Management agrees with the facts as presented in the report and is implementing corrective actions. The management response and proposed corrective actions are included as Attachment II.

INTERNAL AUDIT REPORT
IMPROVING THE RETURNS PROCESSING ACTIVITY IN THE IRS

INTRODUCTION

This report presents the results of our review of 1985 processing activities at IRS' service centers. We conducted our audit in the Office of the Assistant Commissioner (Returns and Information Processing) and the related functional activities in each region and in the 10 service centers. The audit began on March 27, 1985 and was completed August 30, 1985. The review was conducted in accordance with generally accepted government auditing standards.

The Returns and Information Processing (RIP) activity provides service to all Internal Revenue Service components by analyzing and processing tax returns and related documents to ensure that: correct liabilities are assessed; tax liability payments are processed; refunds are issued on overpayments; and, collection notices are issued. Policies and guidelines for the programs are provided by the National Office and regional offices to the service centers. The service center activities reviewed included: receipt and control; code and edit; transcription; computer processing; block out of balance conditions; and, error corrections including unpostables. In conjunction with other activities, these systems are designed to ensure that the Service collects the proper amount of tax revenues at the least cost to the public.

This report presents an overall perspective of selected processing activities. The Results of Review Section includes background and results for the following segments: Program Management; Service Center Control File; Remittance Processing System/Distributed Input System; Block out of Balance Correction System; Error Resolution System; and, Generalized Unpostable Framework. Separate reports will be issued on other 1985 processing activities such as Computer Operations, Correspondence/Adjustments and Federal Tax Deposits.

The management response and proposed corrective actions are included as Attachment II to this report. If the corrective actions are implemented as proposed, improved processing activities should result.

AUDIT OBJECTIVES AND SCOPE OF REVIEW

The overall objective of our review was to evaluate management techniques for controlling, monitoring and evaluating processing activities and to identify specific processing activities which could be improved. Due to lead times required to implement corrective actions, we did not perform complete systems reviews on all processing activities. The detailed objectives and scope of review are included in Attachment I.

RESULTS OF REVIEW

Program Management

The Returns Processing and Accounting Division at the National Office has overall responsibility for developing and issuing detailed procedures; coordinating work plans; monitoring and evaluating processing; and, identifying and correcting significant operational problems that pertain to the Individual Tax Return Program. Each region is then responsible for supervising the execution of the service center's program and for recommending adjustments or modifications to the program.

Program completion dates are established for many processing programs. Within the Individual Tax Program, there are several program completion dates, with the other-than-full-paid program being the most visible. The program completion date for the other-than-full-paid program is based on the 45 day interest free processing period provided for by the Internal Revenue Code. Thus, for a timely filed refund return the interest free period is from April 15 to May 30. Since time must be allocated for check processing, the program completion date for service center processing is May 23.

Several processing reports are sent to the National Office either directly from the service centers or through the regional offices. This information is used by the Management and Resources Branch for planning, monitoring and reviewing service center operations. Also, program completion analyses are prepared by the National Office. Primarily, these analyses address the other-than-full-paid program which includes both refunds and balance due returns. Service centers, regions and the National Office evaluate whether the center met program completion goals as defined in the Internal Revenue Manual. A final Filing Season Evaluation Report is prepared based on input received from service centers, regions, and the National Office.

Management Should Utilize a Filing Season Implementation Plan

Although most program requirements were provided to the service centers routinely, several operational problems occurred this processing year because management did not ensure that all the program requirements were timely conveyed. For instance, the Block Out of Balance Correction Handbook has not been completely issued since the National Office did not determine who was responsible for writing the Manual until March 1985. Had the handbook been available, corrections could have been more expedient. Also, the Distributed Input System caused constant deposit balancing problems early in the filing season when the centers had not yet received the balancing procedures. In addition, pre-printed computer notice forms were not reordered timely resulting in delays of up to three weeks in processing notices at several centers.

Management policy states that all work must be completed promptly. This implies that employees will be provided with the guidelines and resources necessary to complete their tasks. Inefficient operations result when employees must improvise or use trial and error methods to conduct their work. Additionally, revenue receipts are delayed when notices are not issued timely and poor taxpayer relations can result.

Recommendation:

Management should utilize a filing season implementation plan each year to ensure that all essential elements of the program are complete, such as: all IRM's are timely received by the centers; adequate form supplies are ordered; computer programs are properly tested and operational; and, training at the centers is completed.

The Definition of Other-Than-Full-Paid Program Completion for the Individual Tax Return Program Should be Improved

The IRM definition for meeting the other-than-full-paid program completion does not assure management that all timely filed refund returns are processed within the 45 day interest free period. In 1984, over 1.7 million refund returns had not been processed by the program completion date. Consequently, the Service paid substantial interest; yet, all the service centers met program completion. This occurred because program completion date is considered met if the volume processed through the final service center computer run is equal to or greater than the cumulative timely filed receipts. However, cumulatively filed receipts are reduced by the number of suspended error cases, service center control file corrections and certain master file unpostable transactions. If these adjustments exceed the work in process inventory, program completion is met.

Management recognizes that the Service cannot process all timely filed refund returns within the interest free period because taxpayers are filing later each year. This trend is not incorporated in the standards for program completion. Management policy states that to the extent practical, objectives and goals should be expressed in measurable or quantifiable terms and should be attainable.

This processing year, management expended over 500,000 hours for overtime prior to the other-than-full-paid program completion date but placed limited emphasis on processing the inventories that remained afterwards. As a result, the Service's current processing practices may not be the most economical. Also, refund returns that remain in inventory can cause adverse taxpayer relations since economic commitments are made based on expected refunds.

In addition, National Office management performs minimal analyses of the other Individual Tax Return Program completions, such as: balance dues, full-paids and Applications for Extension of Time to File. Erroneous notices and additional service center workloads result when returns are not timely processed.

Recommendations:

- The Individual Tax Return Program should include specific, measurable and attainable standards for determining program completion. Program completion should reflect completed processing. Since all returns received timely cannot be processed by program completion date, goals to complete the remaining inventories (both work-in-process and error) should be established.
- The Service should examine the total costs associated with processing returns both prior to and subsequent to the program completion date. A more level work effort could reduce overtime expenditures while only minimally increasing interest costs. (This is based on adding return sorts as recommended in the Service Center Control File segment of this report).
- A computer program should be developed which distinguishes between the interest paid on timely filed returns and other original settlement returns. This information could then be used to evaluate a service center's processing effectiveness.
- Also, the Service should monitor and evaluate the program completions for other IMF programs such as balance dues, full-paids, 1040ES's and Applications for Extension of Time to File, etc. to ensure that credits are posted timely and that accurate notices are issued.

The Service Should Clearly and Consistently Designate Officials Responsible for Accomplishing and Evaluating Program Completion

Our review of SES/Merit Pay Expectations and position descriptions of National Office, Regional Office and Service Center managers showed the responsibility for ensuring program accomplishment and evaluation are not clear and consistent throughout the Service. The responsibility for meeting program completion dates was only specifically addressed in the expectations of two officials, a Service Center Director and an Assistant Regional Commissioner (Data Processing). The remaining officials' expectations dealt with program accomplishment indirectly, e.g., reducing interest paid, accomplishing national and regional goals, etc. The position descriptions of numerous officials, from Assistant Commissioner (Returns and Information Processing) to Service Center Director, addressed the issue of program evaluation in only general terms.

Service policy specifies that functional managers should monitor and evaluate program accomplishment as well as detect problems which require correction. Further, management theory states that specific responsibilities should be clearly delineated in order to affix accountability for accomplishing goals, evaluating results and identifying and correcting problems. Failure to clearly designate officials responsible for the various aspects of the processing program can result in goals not being achieved.

Recommendation:

The Service should clearly and consistently designate officials responsible for program accomplishment and evaluation. Accountability should be specifically stated and program goals should be incorporated in the appropriate officials' SES/Merit Pay Expectations.

Management Should Improve the Communication Between National Office and Functional Areas

The Returns Processing and Accounting function has established a system for the service centers to communicate processing problems to the National Office. Management believes some of the adverse publicity received this year could have been avoided if problems had been promptly reported. Therefore, the Deputy Commissioner has requested that a Composite Early Warning System be designed to preclude recurrence of communication failures.

For example, the pattern of events associated with the erroneous filing requirements for Employers Annual Railroad Retirement Tax Returns (Forms CT-1) extends back to January 1984. Taxpayer errors in marking optically scanned Federal Tax Coupons created erroneous filing requirements; thereby, causing erroneous delinquency notices to be generated. The problem was identified by the service centers but was not promptly communicated to the National Office. Even when the problem was surfaced to Returns Processing, it was not effectively communicated to National Office Collection officials for their evaluation. Current communications can range from poor to excellent depending on the level of employee experience, time constraints and personal contacts.

Recommendation:

A control system should be established to ensure timely and thorough communication of all service center related problems to a designated official in the Returns Processing and Accounting Division. This official should timely disseminate the information to designated officials in the other Assistant Commissioner functions. In turn, each of the officials should communicate the problem to the proper personnel, analyze the impact on operations, develop solutions and coordinate actions to minimize any adverse effects.

Service Center Control File

The Service Center Control File (SCCF) is the primary control over documents and revenues in the service centers. Each document is assigned a Document Locator Number (DLN) and grouped in blocks (100 or less like documents). As documents are processed, the block DLN and other pertinent information are key input. This information remains on the SCCF until document accountability is transferred to the National Computer Center (NCC) or the documents are deleted. The SCCF is maintained on a tape file which is updated or adjusted by control records input from various sources. The SCCF shows the original cycle of input and the inventory classification of documents in suspense (awaiting computer processing or reprocessing), blocks out of balance, errors, rejects (taxpayer correspondence required) or delete (corrections to SCCF) status.

The Balancing Unit in the Service Center Accounting Branch maintains and balances the SCCF, balances and releases transaction tapes to NCC and balances the General Ledger suspense accounts. To maintain the SCCF, the Balancing Unit resolves computer identified transactions that, for various reasons, do not update or adjust the SCCF. Sometimes the block must be located to correct the rejected transactions. At least monthly, the Balancing Unit conducts an aged review to identify blocks that have had no activity for a specified number of cycles. Through this analysis, blocks that require immediate attention are located, worked and cleared.

Management Could More Effectively Utilize the Service Center Control File to Monitor and Control Processing

The Balancing Unit had difficulty maintaining the SCCF this filing season due to systemic problems. Computer Branch scheduling priorities and processing backlogs caused delays in updating and correcting the SCCF. Also, there was an unusual number of duplicated block numbers caused by a programming change. To correct duplicate block numbers, both blocks had to be located which was cumbersome because of other operational problems. As a result, the number of aged blocks on the SCCF increased substantially.

A monthly SCCF Aged List is generated to show the blocks which have been on the SCCF for six weeks or longer. The average SCCF Aged List for May 1985 had 10,222 Individual Master File blocks or 145,228 documents. Management standards state that only 5% of the items on the list should be 90 days or older and no more than 1/2% should be older than 180 days. We determined that the percentage of items on the list that were 90 days or older was as high as 33% and items over 180 days was 10%. Each item on the SCCF Aged List should be reviewed to determine why it is still outstanding. One service center official stated that optimistically, only 35 - 40% of the SCCF Aged List could be worked before the next list is generated. Several service centers had to establish a task force and all centers used special aged lists to control these problems.

Many of the problems experienced with the SCCF are inherent to the system. For instance, IRM procedures require periodic computer runs to identify aged items but they must be requested by service center operations. In addition, both the type of applications to analyze the file and the information on the file are limited. Specifically, the current SCCF: (1) does not provide a flexible management tool to identify individual document characteristics; (2) is not established independently of the system used to process the document data; (3) does not provide readily available work in process management reports; (4) does not provide flexible on-line accounting control over documents and money during processing; and, (5) does not provide for balancing and reconciliation between the master control and the inventories of individual processing units.

Internal Audit's computer analyses showed there were over 500,000 1984 and prior documents on the SCCF servicewide as of April, 1985. These included over $347 million in business subsequent payments and $230 million in individual payments. These conditions along with unidentified and unprocessed tapes, payments and documents for 1985 aged items present a problem which directly affects taxpayers. Erroneous delinquency and balance due notices have been issued causing both adverse taxpayer relations and large service center correspondence inventories. Management has required that all centers establish a SCCF Task Force to identify unprocessed documents and resolve aged items.

Recommendations:

- Management should emphasize that maintenance of the SCCF is a high priority. Existing automated methods, including Internal Audit's computer analysis programs should be used as is, or modified, to meet management's needs. Management should also consider devising other methods until a fully integrated automated SCCF is developed and implemented.

- Items should be sorted and batched by type of document which needs to be monitored through a MIS, e.g., timely filed separate from delinquent returns, refunds separate from non-refund returns, ES payments separate by quarters, etc. An alternative solution is to use different blocking series within existing programs.

- RPS data control could be improved by matching the master control record file with the raw data blocks to ensure that control is established on the SCCF and to provide for raw data processing continuity.

- Non-RPS data control should be automated with a microcomputer (e.g., Zilog) with a tape output to Generalized Mainline Framework (GMF) runs to establish SCCF control. This system of SCCF control will reduce errors such as, DLN duplicates, DLNs not established on SCCF, and, untimely SCCF control establishment. This system will also create an audit trail for non-RPS documents and reduce blocking documents in incorrect programs, etc.

- Monitoring reports should be created to provide information for each level of management based on their respective needs, e.g., detailed reports for pipeline unit managers, less detailed reports for Division level managers and summary reports for service center directors and Regional Office oversight managers.

- The SCCF should be established as a realtime database with query and adjustment capabilities through on-line terminals similar to the GUF and ERS. Bar codes (Uniform Product Codes) should be used to track documents from creation of block control records through transmittal to files for retention. The document serial numbers should be shown on the screen output with variable aging criteria for different types of documents, e.g., Form 1040ES and other payment transactions would have shorter time frames than complex tax returns. Automating the SCCF database would allow the computer to assign work daily and permit instant correction of the SCCF. Periodic magnetic backup tapes should be retained for historic purposes.

- Totals from the SCCF should be periodically balanced to sub-pipeline activities and inventory records, e.g., ERS, BOOB's, Rejects, etc. These periodic reports will allow pipeline managers to match their current inventories with the SCCF and reconcile the differences.

- Each service center should establish a centralized file in the Processing Division to hold all documents in a searchable DLN order. When data on all documents in a block is released to "good tape" or rejected from the system, a record of the DLNs should be added to an automated system as authorization to transmit the physical documents to files or the Federal Records Center for retention. In the interim, the computer tapes currently used to generate the Cycle Proof Listing should be used to generate tapes to establish control on an automated system. This system would maintain the records in DLN sequence for use by the returns files function as authority to receive processed returns and to prevent unprocessed returns from being stored.

Remittance Processing System/Distributed Input System

In FY 1984, the service centers processed approximately $102 billion dollars in payments through the Remittance Processing System. Processing begins with the assignment of the block DLN. Payment data from the remittances are transcribed by the original entry (OE) operators and then checked by key verification (KV) operators. The RPS equipment encodes checks with payment amount, prints audit trails on the checks and remittance documents and produces printed listings of remittances in the block. The data from the remittances are stored in the Distributed Input System (DIS) minicomputer (node) until block processing is complete.

The DIS generates work in process and completed block listings as well as the record to establish control on the Service Center Control File. The completed block data are transmitted from the DIS to a master computer for editing and magnetic tape creation. Afterwards, the tape is input by the Service Center Computer Branch to the tax processing system (Generalized Mainline Framework) causing the payment to post to the Master File (MF), and the Integrated Data Retrieval System (IDRS) accounts. Through these processes the Service establishes accounting control and accountability over taxpayer remittances.

System Data Accuracy Could be Improved by Utilizing Data Verification Techniques

Current practices do not prevent inaccurate data from being input through the DIS processing. The Internal Revenue Manual requires that specific data be key verified by operators who did not enter the original data; however, the system allows the supervisor to bypass this control. We found that managers did not require KV when OE operator error rates were less than five percent. Audit trails were not available to verify the quality standards achieved. To the contrary, Quality Assurance Branch reported an overall data conversion error rate as high as 28% for various types of returns in May 1985.

Some service centers did not consider quality when computing data transcription incentive award bonuses. This occurred because the Quality Assurance System does not identify the OE and KV operators separately. Audit tests showed that high error rates have increased the error correction and block out of balance inventories. A sample of 12 blocks in the Error Correction function showed that 79% (405 of 511) of the errors were caused by inaccurate data input. Likewise, inaccurate input caused block out of balance conditions in 37% (863 of 2,306) of the blocks sampled. An awards system based solely on production results in less emphasis on quality and increases workload inventories in other units.

Recommendations:

- IRM requirements should be established for key verification of:
  - a. block DLN data from Batch Transmittal Records;
  - b. block header information identifying transaction code and date, block DLN and number of documents;
  - c. the first section of every document input by OE containing the return DLN, taxpayer identification data and type of tax;
  - d. all sections that fail the zero-balance routines; and,
  - e. sections of the return with no data input by OE that frequently contains information, such as tax credits on Form 1040.
- RPS and DIS computer programs should be modified to:
  - a. provide systemic separation of duties between OE and KV personnel to ensure that this control is not bypassed and to provide data for quality review; and,
  - b. prevent duplication or omission of DLN serial numbers and permit KV and OE operators to correct erroneous tax period data and header information, respectively.

Document Control During Processing Could be Improved

Controls could be strengthened to ensure timely tax return and payment processing. The IRM requires that service centers maintain the following computer files and management reports:

- Batch Profile Reports (BPR's) show the status of documents during processing and are used to identify production bottlenecks. The current system requires the input of a separate keypunch card for each block of documents at the completion of each stage of processing. The computer room must process these cards each night to generate a new BPR for the next day.
- End of Day Listings (EODL's) show the blocks of documents processed through the RPS/DIS to the GMF, rejected and not completely processed; and,
- Cycle Proof Listings (CPL's) identify documents that have been processed completely and can be transferred to the files function.

These controls were not always effective in controlling processing. Our Servicewide SCCF analysis conducted in April 1985, showed that over 685,000 payments for tax liabilities and estimated tax (over $2.7 billion) were over 21 days old. Since March 1985, special searches at one center located at least 5,000 blocks of unprocessed returns in the files function or at the Federal Records Center.

These conditions occurred for several reasons. First, the Batch Profile Reports were not generated daily (at one center) until late February and subsequently were not maintained or utilized to monitor inventories. Second, unprocessed documents bypassed the End of Day Listing and Cycle Proof Listing controls and were filed prematurely. These blocks were either never input to the DIS or not electronically transferred from the DIS to the main tax processing system. Known reasons for data to remain on the DIS is misuse of the "mode" keyboard function or frequent system restarting after maintenance. Finally, some blocks were not reinput to the DIS system when required. Payment processing delays result in erroneous notices and tax refund issuances to taxpayers.

Recommendations:

- Consider automating batch control (BPR's) on a micro/mini computer system. This could provide for immediate updating of batch location and status by functional areas prior to control on SCCF and eliminate the need for daily computer runs;

- To alleviate the EODL problems, the DIS computer program should be modified to provide:

    a. a screen prompt or operator lockout to prevent loss of data due to misuse of the keyboard;

    b. an audit trail when the transmission of data from the DIS is interrupted; and,

    c. a listing of all blocks dropped from the system as a result of running the Master Clean computer program; and,

- To ensure the proper filing of completely processed documents, the SCCF (open, zero balance and historic) should be used in conjunction with the CPL.

Management Should Improve Deposit Balancing Procedures to Reduce the Volume of Bank Discrepancies

The Receipt and Control Branch is responsible for processing remittances; reconciling RPS remittance registers and summaries; and, preparing bank deposits. The Service Center Accounting Branch records revenue receipts in the General Ledger, balances data controls and remittance records, corrects imbalance conditions and resolves discrepancies reported by the depositaries. Specific guidelines for performing these activities have not been provided. For instance, the IRM does not contain specific guidelines for deposit reconciliation of remittance records and bank deposits or for timely resolution of bank discrepancies.

In two service centers, there were 923 instances during January through March 1985 where the bank reported discrepancies. These discrepancies were caused by differences between the amounts received and shown on the deposit tickets, checks processed for erroneous amounts and checks credited to wrong taxpayer accounts because of transcription or encoding errors. Although additional local procedures were implemented by one center, discrepancies continued to occur. For example, we identified seven deposits prepared between April 21 and May 15, 1985 that contained composite bank discrepancies totaling $1,081,293.

Also, bank discrepancies that are not resolved timely require the use of already limited service center resources. At one center, unresolved discrepancies for Fiscal Years 1983 and 1984 totaled over $994,000. We analyzed 19 discrepancies resolved in May 1985, and found:

- discrepancies were identified in 1983;
- necessary bank adjustments were not made until five to sixteen months after corrections were requested by the Accounting Branch;
- case files did not indicate follow-up action with the bank by Accounting Branch; and,
- total time to resolve the cases ranged from 20 to 28 months.

Untimely resolution of bank discrepancies causes erroneous refunds and balance due notices which then result in adverse taxpayer relations. Service Center Adjustment Branch and Problem Resolution Program inventories are also adversely impacted.

Recommendation:

In order to identify and correct RPS transcription errors and minimize bank discrepancies, the IRM should be revised to provide specific procedures for reconciling bank deposits. Specific procedures and timeliness guidelines should also be established for resolving bank discrepancies. The Service should consider installing equipment in the deposit function that counts checks and reads encoded information to identify unprocessed checks and encoding errors.

Block out of Balance Conditions

A block out of balance condition occurs during computer processing when a block of returns is determined to be unprocessable. This can occur for several reasons including: a block control number input error; a duplicate DLN on the SCCF; and, the data within the block are not in proper sequence. These blocks cannot be processed any further through the tax processing system until the error condition is corrected. The Block out of Balance Unit corrects the errors through the Distributed Input System.

The Service Could Improve the Methods and Techniques Utilized to Implement Major Programming Systems

The National Office could improve the analysis techniques used to evaluate the impact of programming. We found certain mainline tax processing computer programs were transmitted to the service centers without undergoing systems acceptability testing and for those programs which were tested, significant problems were encountered. This occurred because the systems acceptability tests for mainline tax processing were six to eight weeks behind schedule due to the following circumstances:

- available computer time for testing purposes was not adequate;
- the documented computer instructions and handbooks were received late and were incomplete;
- programmer support was not available for the last two months of the testing period; and,
- a major computer program (DED-01) was not operational when the SAT team started their review.

The System Testing Branch has overall responsibility for System Acceptability Testing. They are responsible for assuring that handbook procedures, computer instructions documentation and computer programs fulfill the requirements established by the requesting division. For example, complete handbook instructions for BOOB corrections were not transmitted to the service centers. Although centers did receive most of the IRM, the instructions for using the BOOB Correction Record were not provided. One center estimates that 30% of its inventory involved BOOB Correction Records. The guidelines were not provided because the National Office did not assign specific responsibility for writing them until March 1985.

Planning for BOOB programming changes could have been more effective. For instance, returns with sequence errors were rejected and corrected individually in 1984. One service center recommended that sequence errors be sent to BOOBS instead. The National Office agreed to make the programming change without evaluating the impact on processing. The impact was substantial; through March 1985, 27% of all IMF BOOBs at two centers were due to sequence errors. Consequently, one of these centers expended 8,171 staff hours more than a comparable period last year.

These factors all contributed to the substantial increase in BOOB inventories which subsequently had a major impact on 1985 processing. For example, six service centers did not meet program completion for processing Forms 940/941. Thus, BMF delinquency checks were postponed. This prevented the timely issuance of notices and Taxpayer Delinquency Investigations to those taxpayers who were actually delinquent. In conjunction, additional processing was required to identify unprocessed Forms 940/941 so that a transaction code could be input to eliminate erroneous delinquency notices. An additional impact is processing delays will cause increased interest payments on Individual Master File Returns. Improved planning may have alleviated some of the BOOB processing problems.

Recommendation:

A special coordinator should be appointed to oversee the implementation of new/modified processing systems. This would include a staff with sufficient expertise and authority to make required changes as necessary. The coordinator should analyze processing trends during the early phases of service center processing so that immediate corrective actions can be effected.

Error Resolution System

As data enter the tax processing computer system, the computer performs validity and consistency checks, verifies taxpayer's mathematical computations and codes the data to assure taxpayer notification of errors. If data from an input document do not pass all validity checks, the record is placed in either error or block out of balance status.

The new Error Resolution System was designed to completely replace the service center error/reject resolution processes. Under the old system, corrections were made to paper registers manually and they were then transcribed. The new system displays the incorrect data on a screen and corrections are input and verified through on-line terminals. This on-line system eliminates re-inputting the corrected return information through the DIS terminals.

The system identifies which returns have errors and displays those data fields by priority until all corrections have been made. Tax examiners have three options for resolving errors: correcting the return; deleting the return from processing if it cannot be corrected; or, suspending the return pending correspondence and receipt of additional tax data.

Management Could Improve the Internal Revenue Manual Guidelines Concerning the ERS Automated Control System

Tax examiners in ERS can place a return in suspense status if it is unprocessable. Action codes are input to specify the reason the return was suspended. The action codes generate a status code and establish a predetermined suspense period which is automatically maintained by ERS. The returns are classified as unworkable until they are activated by the Reject Unit when needed information is received or, by the computer because the predetermined suspense period has expired.

The Workable Suspense Inventory Listing identifies activated returns. The report shows the number of days the return has been in the workable suspense inventory and the status code. Our review showed the Listing is not used to work, purge or identify aged cases. The Reject Units at two centers have devised their own suspense systems which are independent from the ERS. The returns (correspondence cases) and charge outs (other than correspondence cases) are filed in DLN order and by various action dates. However, the manual and computer systems' action dates differ.

The Reject Unit purges the suspense file by manually scanning the file to identify expired suspense cases. The suspense period is based on the date of action rather than the computer suspense period which begins when the case is transferred to Reject Unit suspense. Consequently, cases are shown on the workable inventory which are actually unworkable. Therefore, inventory reports do not reflect the true status of suspense cases.

Also, the time required to maintain suspense inventory reports reduces the effectiveness of the automated control system. The volume and format of these reports are so overwhelming that many of them are never used. For example, one daily Workable Suspense Inventory Listing was 1,725 pages. This complicates the proper accountability, maintenance and work assignment of suspense cases. Additionally, the IRM sections concerning control over suspense documents and the Workable Suspense Inventory Listing are fragmented and vague.

In summary, the returns in suspense status are not adequately controlled. Failure to use the Workable Suspense Inventory Listing can result in cases becoming aged even before the returns are identified as being unprocessed. This leads to processing delays, adverse taxpayer relations and unnecessary interest payments on refund returns. Also, an inordinate amount of time is required to purge files because the computer and manual suspense periods differ. Further, generated suspense inventory reports (Workable Suspense Inventory Summary and Listing, Workable Inventory Display and Unworkable Suspense Inventory Summary) do not agree with the actual suspense files.

Recommendations:

- The IRM should be revised to clearly state that the ERS automated control system and the Workable Suspense Inventory Listing be used to monitor and control ERS suspense cases.

- The program code sort for the Unworkable Suspense Inventory (ERS 0740) should be eliminated since programs lose their identity and usefulness when returns reach the suspense files.

- Workable Suspense Inventory Summary (ERS 1343) should be eliminated because the same information can be obtained from IDRS.

- Workable Suspense Inventory Listing (ERS 1342) should be revised so that only the DLNs by status and master file for zero-day cases in the workable inventory are generated.

- An Aged Workable Suspense Inventory should be created which shows the master file, DLN and status code; and, includes age intervals corresponding to the requirements in IRM 3(30)(123)0.

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- The predetermined suspense periods for some of the action codes should be reevaluated. The automated control system cannot work effectively unless the suspense periods are realistic. For example, the "zero-day" and the "route-to" Action code suspense periods should be increased to allow returns to be routed and associated with chargeouts.

The Service Could Improve the System Which Identifies Refund Returns Which Should be Issued Manually.

The Service could improve the program used to identify large refunds that should be issued manually to prevent the payment of interest. The IMF Interest Jeopardy Report is divided into two parts, the Error File and the Suspense File. Currently, these reports contain extraneous information on overpayments such as, refunds where the legal time to issue has expired; refunds where the 45 day interest free period has expired; and, returns that require correspondence. For example, our review of the Suspense File report showed that 76% (379 of 500) were correspondence cases where the interest free period was not in jeopardy. The two service centers in our review did not utilize the reports in their present format due to the substantial number of returns unnecessarily listed. To ensure efficient operations, systems and their related reports should be designed to include only necessary information.

Recommendations:

- The Service should eliminate the Error File Report (ERS 1744) and modify the Error Resolution Error Inventory Report (ERS 1340) to identify and flag returns within the block where the interest free period is in jeopardy. The report should only identify refunds of $1,500 or more. Overpayments involving credit elects and barred refund statute cases should be eliminated.
- The Suspense File Report should be retained but the criteria modified. The report should only identify refunds of $1500 or more and the refund amount criteria should be raised on returns where the 45 day interest free period has expired. The report should not contain information on barred refund statute cases and returns awaiting taxpayer responses.

Generalized Unpostable Framework

The Generalized Unpostable Framework (GUF) is the on-line process for correcting returns and documents that were not allowed to post (unpostable) to the Master File for various reasons. A transaction which does not post to a master file account at the National Computer Center is returned to the service center for corrective action. A National Computer Center created unpostable tape is provided to the service centers each week. Each center is responsible for maintaining a complete record on tape of all unresolved unpostables originating from their center.

Tax examiners research available Service and taxpayer information and then input corrections to the GUF database using terminals. Unpostables are resolved by four service center functions: Unpostable Unit; Examination Branch; Entity Unit; and, Criminal Investigation Branch.

The Service Could Reduce the Number of Unpostable Conditions Caused by Name Control Mismatches.

Currently, a computer program compares the Taxpayer Identification Number (TIN) at the Master File with the taxpayer name control and TIN from the service center transaction tape to ensure documents post to the correct account. If there is a mismatch, the transaction is unposted and sent back to the service center for resolution. The name control is a four character abbreviation taken from the taxpayer's name. In lieu of the name control, taxpayers using the IRS label provided with the tax package have a two character check digit. Check digits are entered into the third and fourth positions of the name control field (a group of characters that is one unit of information) so the computer can differentiate between a check digit and a name control.

Management could reduce the number of name control unpostables by adjusting the mismatch criteria. We found that many unpostable mismatches were caused by illegible names on documents, data transcription errors or check digits placed in the improper name control positions. We estimate that 18% (44,000 of 245,000) of the name control mismatches at two service centers were cases where three of the four name control characters matched and along with the TIN would result in correct account posting. Additionally, we estimate that 10,500 mismatches were caused by check digits input as taxpayer name controls (not in third and fourth positions). These unpostables require resources to resolve and delay return settlements.

Recommendations:

- If the name controls match on three of the four positions, post the document with the name control as shown at Master File. With the combined TIN and three digit name control matches, our audit tests indicate that the documents will post to the correct account. An earlier review of Business Master File tentative carryback documents also supports this recommendation.

- The two character name controls should be computer compared to the check digits. If they match, the name control should be moved to the third and fourth positions to eliminate the unpostable condition.

The Internal Revenue Manual Should be Clarified to Indicate When a Taxpayer Delinquency Investigation (TDI) Delay Indicator Should be Input.

The IRM specifies that a delinquency notice prevention code be input on IDRS when a return is unpostable. This is considered necessary to stop erroneous notices from generating when the cyclical Master File delinquency check is conducted. However, this is only necessary when the unpostable code is attempting to post to an incorrect tax module (a tax module reflects tax data for one class of tax and one tax period).

We found that at one of the two service centers we reviewed, unnecessary resources were being expended inputting delinquency notice prevention codes for all unpostable tax returns.

Recommendation:

The IRM should be clarified to indicate that a TDI delay indicator is necessary only when the unpostable return is for a different tax period. The delay indicator should then be input to the tax period for which the return was intended.

John G. Hofmann

John G. Hofmann
Audit Manager

Attachment I

Detailed Audit Objectives and Scope of Review

The overall objective of our review was to evaluate management techniques for controlling, monitoring, and evaluating processing activities and to identify specific processing activities which could be improved.

Subobjectives and Audit Steps

I. To determine the methods and techniques used by the National Office and regions to ensure the Individual Tax Return Program is completed timely.

   A. Reviewed procedures for transmitting IMF program requirements to service centers.

   B. Evaluated Internal Revenue Manual criteria for program completions and compared it with actual unprocessed inventories.

   C. Evaluated management information system reports and analyses to determine the monitoring system for returns processing.

   D. Reviewed Senior Executive Service Merit Pay Expectations and position descriptions for Service executives to determine program completion accomplishment and evaluation responsibilities.

   E. Discussed the procedures for surfacing systemic problems from the service centers to the National Office.

   F. Reviewed the method and techniques utilized by the region and the service center to supervise and monitor the Individual Tax Return Program and to develop and recommend required changes to the program.

II. To determine the adequacy of the Service Center Control File (SCCF) in providing effective and timely information to maintain control over processing and ensure timely program completion.

   A. Reviewed the procedures for maintaining and balancing the SCCF with the general ledger suspense accounts to determine their effectiveness.

   B. Tested documents in the Returns File to determine whether all returns were properly controlled on SCCF and processed to good tape.

C. Tested effectiveness of procedures for resolving work which is processed through the SC before the related control is established on the SCCF.

D. Evaluated the controls designed to assure that documents are timely processed through the service center. Determine what criteria is used for working the SCCF aged transcripts. Analyze the percent of overage cases on the SCCF and evaluate the effectiveness of procedures for resolving overage cases.

E. Evaluated the effectiveness of procedures used to correct and update the SCCF by the Balancing Unit.

III. To determine whether controls over the DIS and RPS function assure that returns and payments are timely and accurately processed to taxpayer account records.

A. Evaluated whether document controls are timely established and effectively utilized.

B. Tested whether tax return data is accurately transcibed and transferred from the DIS computer system to the Univac computer system for machine processing.

C. Evaluated whether revenue receipts are timely deposited and properly reconciled and bank discrepancies are timely resolved.

IV. To determine whether the Service's processing of tax returns and documents through the block out of balance routine was performed in a timely, efficient and effective manner.

A. Analyzed whether the volume of BOOB conditions could have been reduced.

B. Evaluated the adequacy and timeliness of National Office corrective actions for previously identified BOOB problems.

C. Analyzed the impact that BOOB conditions have had on processing.

V. To determine whether there are any systemic or operating weaknesses in the Error Resolution System (ERS) which caused returns processing delays.

A. Reviewed and monitored the various inventory reports for accuracy and usefulness.

B. Reviewed and evaluated programs and procedures for processing returns within the 45 day interest free period.

C. Reviewed and evaluated procedures for controlling and resolving returns temporarily suspended from processing.

VI. To determine if the Generalized Unpostable Framework system was efficiently correcting unpostable conditions.

A. Analyzed the types and volumes of unpostables.

B. Sampled 322 name mismatch unpostables to determine why the transaction unposted and if it was properly corrected.

C. Sampled 53 BMF accounts and reviewed procedures to determine if non-filing notices were issued.

ATTACHMENT II

Internal Revenue Service
memorandum

RECEIVED
OCT 1
INTERNAL AUDIT

date: OCT 16 1985

to: Commissioner C

from: Associate Commissioner (Data Processing) D

subject: Draft Internal Audit Report - Improving The Returns Processing Activities In The IRS

In response to the subject Internal Audit Draft Report, the following are statements of the problems and conditions identified by Internal Audit during their review and our assessment of the causes and corrective actions taken or planned.

Identification of Finding(s): (page 2) Some of the necessary guidelines, IRM's and resources were not timely provided to the service centers. This led to improvisation and trial and error methods to compensate which resulted in inefficient operations, untimely notice issuance, delay of revenue receipts and poor taxpayer relations.

Assessment of Cause(s): In general, there were many direct and indirect contributory factors. Internal and external assessments have emphasized computer hardware and software difficulties, as well as addressing general preparedness. Our assessment is that the total combination of factors relating to new equipment, software, procedures and programs, required a multitude of complex actions within a severely compressed period of time. This compromised effectiveness.

Corrective Actions:

Internal Audit Recommendation: Management should utilize a filing season plan each year to ensure that all essential elements of the program are complete, such as: all IRM's are timely received by the centers; adequate form supplies are ordered; computer programs are properly tested and operational; and, training at the centers is completed.

Response: For all noted elements there are, and have been, plans executed. Computer program Systems Acceptability Testing and training course development are done before the filing season. This is also true for hiring, scheduling (work and training) and supply requisition. IRM's are written, cleared, published, and distributed under a tight control system and schedule. Beyond this, systems are validated with live data under the HUB concept at one service center prior to Servicewide implementation. With our large and complex system there will be elements that do not prove reliable and our planning and control systems do provide for corrective action. This year there were massive requirements for corrective actions and a complex web of interrelationships between system eccentricities, absence of reliability, response time, realtime availability and a lack of capacity. The circumstances this year were extraordinary.

Major systems do require an integrated, carefully monitored implementation plan with a program manager. This inclusion of field participation, integrated consideration of capacity, response time requirements and operating system specifications are now a reality in the implementation of major systems, such as the Real Time Input System. An extensive implementation plan, such as this, however, is appropriate only for major systems.

A filing season implementation plan has been established for 1986 processing. Returns Processing and Accounting Division and Computer Services representatives will visit the service centers during November and December to perform a readiness check which will include adequacy and timeliness of training and receipt of IRMs as well as run-to-run balancing and data and systems controls. (Responsible Official: Chief, Income Tax Branch (D:R:R:I), Chief, Employment, Excise, EP and EO Branch (D:R:R:E) - Completion Date: January 1986)

Identification of Finding(s): (page 3) The definition of other-than-full paid program completion for the Individual Tax Return Program should be improved. The current IRM definition for meeting the other-than-full-paid program completion does not assure management that all timely filed refund returns are processed within the 45 day interest free period. Although management recognizes that the service centers cannot process all timely filed refund returns within the interest free period because taxpayers are filing later each year, the standards for program completion date do not consider this filing pattern trend.

In addition, the Service's processing practices may not be the most economical. Although significant overtime hours were expended prior to the other-than-full-paid program completion, limited emphasis was placed on processing the inventories that remained afterwards. National Office management also performs minimal analyses of the other Individual Tax Return Program completions, such as balance dues, full-paids, and Applications for Extension of Time to File.

Assessment of Cause(s): Over the past several years, management has been sensitive to the need to develop clear and meaningful criteria for meeting the other-than-full-paid program completion date. At the end of the 1984 filing period the then current other-than-full-paid program completion date guidelines were reviewed and modified to address the concerns raised during that filing period. At that time, management believed that the shortcomings of the other-than-full-paid program completion date guidelines had been addressed and clear and meaningful guidelines were in place for the 1985 filing season. However, the problems of the 1985 filing season only magnified the limitations of these guidelines and reinforced the need for more specific, measurable and attainable standards for determining program completion.

The increase in 1985 overtime usage over 1984 is primarily attributable to processing problems early in the year which created a large backlog of returns needing to be processed by the program completion date. Another factor contributing to high overtime usage has been the increasing number of returns filed on or near the April 15 due date. Inventories of refund returns remaining after May 23 were higher than normal during 1985 due to the unanticipated processing problems which created large inventories of errors, rejects, BOOBs, and unpostables.

National Office management has focused its attention on monitoring and evaluating the program completion dates for those IMF returns that must be processed within the 45 day interest free period. Prior to the 1985 filing season a need did not exist to closely monitor the program completions for the other IMF programs such as balance dues, full-paids, 1040 ES, and Applications for Extension of Time to File.

Corrective Actions(s):

Internal Audit Recommendation(s): The Individual Tax Return Program should include specific, measurable and attainable standards for determining program completion. Program completion should reflect completed processing. Since all returns received timely cannot be processed by program completion date, goals to complete the remaining inventories (both work-in-process and error) should be established.

Response: We agree that the Individual Tax Return Program should include specific, measurable and attainable standards for determining program completion. The 1985 Filing Season Evaluations submitted by the regions included a number of recommendations for revising the other-than-full-paid program completion date. These recommendations along with the concerns reflected above, will be addressed the week of October 7, 1985 by a task force of field and National Office representatives. The task force will establish specific, measurable, and attainable program completion standards for the 1986 filing season. (Responsible Official: Chief, Management and Resources Branch (D:R:R:M), Chief, Income Tax Branch (D:R:R:I) - Completion Date: December 31, 1985)

Internal Audit Recommendation(s): The Service should examine the total costs associated with processing returns both prior to and subsequent to the program completion date. A more level work effort could reduce

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overtime expenditures while only minimally increasing interest costs. (This is based on adding return sorts as recommended in the Service Center Control File segment of this report).

Response: The interest cost for refunds issued after May 30 far exceeds the cost of overtime used to process returns by May 23. The total cost of overtime hours used in January-June 1985 exceeded the cost of the same number of regular hours by approximately $4.5 million. Since the interest cost of an average refund issued one week after May 30 is $13, a one week delay in processing only about 350,000 returns would cost as much as 1985 overtime. The use of overtime enabled several million more returns to be processed timely and was, therefore, cost-effective. Overtime should be minimized for processing the relatively small number of refund returns remaining in inventory after the program completion date. Barring unforeseen systemic problems in 1986, the inventory of errors, rejects, BOOBs, and unpostables should be less than it was in 1985. We expect overtime usage to decrease in 1986, but not below the 1984 level.

In order to establish better control of IMF returns which must be processed by the other-than-full-paid program completion date a new sort will be required. Beginning January 1, 1986, refund returns will be sorted separately and will have a separate program code. This should minimize the overtime required to process returns and issue refunds timely. (Responsible Official: Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1, 1986)

Internal Audit Recommendation(s): A computer program should be developed which distinguishes between the interest paid on timely filed returns and other original settlement returns. This information could then be used to evaluate a service center's processing effectiveness.

Response: A computer program and a report became operational June 6, 1985. Interest is paid on returns not processed in 45 days whether it is original settlement or timely filed and therefore the total interest paid will be used to evaluate the service center's processing effectiveness.

Internal Audit Recommendation(s): The Service should monitor and evaluate the program completions for other IMF programs such as balance dues, full-paids, 1040ES's and Applications for Extension of Time to File, etc., to ensure that credits are posted timely and that accurate notices are issued.

Response:

We agree partially with this recommendation. We will expand our program completion monitoring and evaluation for full-paid returns. The definition of the full-paid program completion date will also be addressed by the Program Completion Date Task Force of National Office and field personnel. However, only 6.5% of the 1040 returns are balance due, even or credit elect. To sort, control and transport this minimal number of returns out of 103.4 million (86 projection) appears to be counterproductive.

In addition, the IRM has been revised to require any Application for Extension of Time to File to be processed within 15 days of receipt. This includes the IMF automatic and subsequent applications as well as all BMF applications. (Responsible Officials: Chief, Income Tax Branch (D:R:R:I) -Completion Date: January 1986, Chief, Management and Resources Branch (D:R:R:M) -Completion Date: August 30, 1985)

Identification of Finding(s): (page 4) The responsibility for ensuring program completion and evaluation are not clear and consistent throughout the Service. The meeting of program completion dates was addressed in only two Service officials' expectations. Failure to clearly designate officials responsible for the various aspects of the processing can result in goals not being achieved.

Assessment of Cause(s): Service management responsible for establishing SES/Merit Pay Expectations were satisfied that expectations they established either directly or indirectly achieve timely program completion dates.

Corrective Action(s):

Internal Audit Recommendation(s): The Service should clearly and consistently designate officials responsible for program accomplishment and evaluation. Accountability should be specifically stated and program goals should be incorporated in the appropriate officials' SES/Merit Pay Expectations.

Response: Copies of this Internal Audit finding and recommendations will be referred to all Regional Commissioners for consideration in future expectation setting. The Data Processing Assistant Commissioners and Division Directors will also be advised to include program completion evaluation expectations where appropriate. (Responsible Official: Associate Commissioner (Data Processing) - Completion Date: October 30, 1985)

Identification of Finding(s): (page 5) The established system whereby service centers and regional offices report processing problems they identify to National Office did not achieve timely communication in all instances.

Assessment of Cause(s): The newness of the processing system used in the 1985 processing resulted in a significant increase in processing problems. As a result, there were instances where the centers could not determine whether the problems were systemic, procedural, or operational as quickly as they have in prior years. This did result in some delays in timely reporting to the National Office and in turn to the affected functional activity.

Corrective Action(s):

Internal Audit Recommendation(s): A control system should be established to ensure timely and thorough communication of all service center related problems to a designated offical in the Returns Processing and Accounting Division. This official should timely disseminate the information to designated officials in the other Assistant Commissioner functions. In turn, each of the officials should communicate the problem to the proper personnel, analyze the impact on operations, develop solutions and coordinate actions to minimize any adverse effects.

Response: We believe the problem reporting systems in place are adequate when used effectively by all involved offices. These systems include:

Systems Acceptability Testing (SAT) Problem Definitions - new systems and/or procedural changes are tested prior to introduction to the production environment. Problems and proposed solutions are transmitted to the responsible National Office component for review and final resolution - SAT Problem Definition, Form M-5534 is used for this purpose. Problems are centrally controlled.

Parallel SAT - special teams are activated at each center in January to review, evaluate, and disseminate information regarding problems and their resolutions. Problems are communicated via telephone and/or Form 5715, Systems Evaluation Report, to a National Office team who serve as a Communications Center controlling the resolutions of problems nationwide.

Procedures/Systems Change Request - recognizing that deficiencies in the systems, procedures or instructions may be encountered, a formal channel of communications was developed whereby field personnel could report procedural and/or systemic problems and recommended solutions to the National Office. Form 5391, Procedures/Systems Change Request is used for this purpose. Forms 5391 prepared by field personnel are directed to the appropriate function at the National Office.

Telephone Hot Lines - last year telephone hot lines were established whereby problems could quickly be transmitted to National Office for coordination and resolution.

HUB Center concept - last year two HUB centers (east and west coast) were established. Under this concept teams of analysts and programmers were gathered at two central locations (HUB centers) to resolve systemic and procedural problems communicated to them by field and National Office personnel.

We believe that the experience gained during the 1985 filing season coupled with familiarity with the system will reduce the number of problems encountered resulting in quick identification of their type and timely communication to the affected National Office functional activity. It is a general practice for field personnel to communicate directly with the responsible program branch when problems are surfaced. Under the program management concept it is expected that our people recognize any potential impact on other functional areas e.g., Collection, Examination, Criminal Investigation, etc., that procedural or systemic changes may cause and communicate these changes to their contacts in those areas. We will emphasize the need for and importance of cross-functional communication.

The various reporting/correction systems mentioned above are, in our opinion, completely capable of controlling and timely resolving the problems identified.

Identification of Finding(s): (pages 6-7) The Balancing Unit had difficulty maintaining the SCCF this filing season. The monthly SCCF Aged List was only partially being worked and the percentage of aged items over 90 and 180 days old far exceeded IRM guidelines. The current SCCF: (1) does not provide a flexible management tool to identify individual document characteristics; (2) is not established independently of the system used to process the document data; (3) does not provide readily available work in process management reports; (4) does not provide flexible on-line accounting control over documents and money during processing; and (5) does not provide for balancing and reconciliation between the master control and the inventories of individual processing units. Unidentified and unprocessed tapes, payments and documents for 1985 aged items caused erroneous delinquency and balance due notices to be issued resulting in adverse taxpayer relations and large service center correspondence inventories.

Assessment of Cause(s): Computer Branch scheduling priorities, processing backlogs, excessive duplicate DLNs, and other operational problems caused the Balancing Unit to commit virtually all of its resources to daily and weekly balancing operations. SCCF aged volumes were much larger than previous years, while resources to resolve the SCCF age were much more limited.

Corrective Action(s):

Internal Audit Recommendation(s): Management should emphasize that maintenance of the SCCF is a high priority. Existing automated methods, including Internal Audit's computer analysis programs should be used as is, or modified, to meet management's needs. Management should also consider devising other methods until a fully integrated automated SCCF is developed and implemented.

Response: The introduction to IRM 3(17)(30)0 will emphasize the importance of staying current with the daily SCCF operations, the weekly No Activity Listing, and the monthly SCCF Aged Transcript. The No Activity Listing, GMF-25-40, now listed as an optional program, will be required weekly for all non-shelved blocks with no action (other than establishment on the SCCF) for three weeks. The Internal Audit computer analysis or comparable programs will be utilized to meet management needs in this area. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Internal Audit Recommendation(s): Items should be sorted and batched by type of document which needs to be monitored through an MIS, e.g., timely filed separate from delinquent returns, refunds separate from non-refund returns, ES payments separate by quarters, etc. An alternative solution is to use different blocking series within existing programs.

Response: We agree with the recommendation to sort and batch refunds separate from non-refunds and to monitor returns through a Management Information System. Since, in the case of estimated tax payments, timeliness is determined by the received date rather than by the quarter indicated on the voucher, there would be no benefit in sorting by quarter. We are currently in the process of developing an MIS for tracking returns. This report will be available January 1986. (Responsible Official: Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1986)

Internal Audit Recommendation(s): RPS data control could be improved by matching the master control record file with the raw data blocks to ensure that control is established on the SCCF and to provide for raw data processing continuity.

Response: IRM 3(17)(30)0 now contains a requirement to balance the RPS Master Control Record listing to the RPS Good Block Proof Record Listing. Any block not on the good tape listing should be on the BOOB list or the Edit Reject list. Any block located on any of these lists must be recovered on an unprocessed tape, reinput through mainline processing, or retrieved from an RPS/DIS node.

These procedures will remain in place until we are satisfied that the DIS system or the Computer Branch run-to-run balancing will prevent blocks of RPS transactions from being dropped.

Internal Audit Recommendation(s): Non-RPS data control should be automated with a microcomputer (e.g., Zilog) with a tape output to Generalized Mainline Framework (GMF) runs to establish SCCF control. This system of SCCF control will reduce errors such as DLN duplicates, DLNs not established on SCCF, and, untimely SCCF control establishment. This system will also create an audit trail for non-RPS documents and reduce blocking documents in incorrect programs, etc.

Response: While we agree in concept, we can not agree in total with the recommendation as it would be an additional task requiring expensive, time consuming, manual entry of data into the microcomputer. The Kansas City Service Center is developing a system for using a hand-held scanner to replace the batch card process. Returns Processing and Accounting Division personnel will be on site at KCSC in October to review this process and will at that time reconsider your recommendation. (Responsible Official: Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1986)

Internal Audit Recommendation(s): Monitoring reports should be created to provide information for each level of management based on their respective needs, e.g., detailed reports for pipeline unit managers, less detailed reports for division level managers and summary reports for service center directors and regional office oversight managers.

Response: We agree with the recommendation. There is currently in place a Service Center Production Control and Performance Reporting System which fulfills the needs of management as cited in the recommendation. Initial input to the system is from Batch and Production Control cards which report volumes of individual batches of work and track these batches as they are processed through the pipeline. Also input are Unit Production Cards. These are used to report receipts and processed volumes for all measured programs which are not under batch control. This process, along with output from the Control Data Analysis System, results in the Daily Production Report. This report must be adjusted and balanced daily. Thus, receipt and production volumes are tracked from initial receipt, through intermediate processing, to good tape for shipment to NCC. This information is most useful to managers at the unit and branch level.

Subsequently, hour and cost data is input from the Performance Evaluation Reporting System and work schedule data is input from the Service Center Workload Scheduling System. The results are four weekly Work Planning and Control reports: (1) The Managers Report is designated to provide management with a comparison of scheduled production with actual production by OFP. (2) The Program Analysis Report contains basically the same information as the Managers Report but is printed in Program, Organization, and Function Code sequence. A one line Service Center Total appears at the end of the report. (3) The Abstract Report tracks hours and costs by fiscal activity and employment category. (4) The Employee Detail Summary lists details to and from an organization by branch and fiscal activity code. When these reports are produced, adjusted and balanced timely, they provide an important adjunct to the SCCF.

Internal Audit Recommendation(s): The SCCF should be established as a realtime database with query and adjustment capabilities through on-line terminals similar to the GUF and ERS. Bar codes (Uniform Product Codes) should be used to track documents from creation of block control records through transmittal to files for retention. The document serial numbers should be shown on the screen output with variable aging criteria for different types of documents, e.g., Form 1040ES and other payment transactions would have shorter time frames than complex tax returns. Automating the SCCF database would allow the computer to assign work daily and permit instant correction of the SCCF. Periodic magnetic backup tapes should be retained for historic purposes.

Response: An on-line SCCF has been approved for the Realtime Input System scheduled for 1988. While most of these features are included in RIS, we will prepare a Request for Data Services to ensure that these specific capabilities are included. We do not believe it is appropriate to rush an on-line SCCF into operation before RIS, because we could not provide for a total integrated system. In addition, programming resources would have to be taken from RIS to complete the effort. (Responsible Official: Chief, Revenue and Accounting Branch D:R:R:R - Completion Date: November 30, 1985)

Internal Audit Recommendation(s): Totals from the SCCF should be periodically balanced to sub-pipeline activities and inventory records, e.g., ERS, BOOB's, Rejects, etc. These periodic reports will allow pipeline managers to match their current inventories with the SCCF and reconcile the differences.

Response: Improved run-to-run controls should greatly reduce the chance of records being loaded incorrectly on error, reject, or BOOB files. IRM 3(17)(30)0 has contained a requirement to balance SCCF error and reject counts to the pipeline inventory records throughout 1985. A partial revision dated August 30, 1985, expanded these instructions to clarify the specific procedures to be used. Exact balancing of file counts is not possible, but this procedure should identify major problems, such as records being dropped or tapes being input twice. Prior to SCRS, no error and reject file balancing was possible, because the counts were not captured on the SCCF.

Counts of records going into and out of error and reject status on the SCCF are balanced exactly to the run control counts of items going into and out of the GMF and ERS inventories.

Balancing of the SCCF to the BOOB file is not practical because many of the BOOB conditions are caused by an inconsistency between the SCCF and the block header.

Commissioner C

Internal Audit Recommendation(s): Each service center should establish a centralized file in the Processing Division to hold all documents in a searchable DLN order. When data on all documents in a block is released to "good tape" or rejected from the system, a record of the DLNs should be added to an automated system as authorization to transmit the physical documents to files or the Federal Records Center for retention. In the interim, the computer tapes currently used to generate the Cycle Proof Listing should be used to generate tapes to establish control on an automated system. This system would maintain the records in DLN sequence for use by the returns files function as authority to receive processed returns and to prevent unprocessed returns from being stored.

Response: After the initial association of error records by Document Perfection Branch, all documents will be sorted in DLN sequence and held by Processing Division for subsequent pulls. The Cycle Proof List will be programmed to list only those blocks that have completed error processing. Files will take the list and pull completed blocks from the holding area for retirement to files. An RDS has been submitted and we expect to implement this change for January 1986. We are opposed to an automated Cycle Proof System because the files operation does not lend itself to the use of terminals. (Responsible Official: Chief, Rvenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (page 9) Current practices do not prevent inaccurate data from being input through the DIS processing. The Internal Revenue Manual requires that specific data be key verified by operators who did not enter the original data; however, the system allows the supervisor to bypass this control. Internal Audit found that managers did not require KV when OE operator error rates were less than 5 percent. Audit trails were not available to verify the quality standards achieved. To the contrary, Quality Assurance Branch reported an overall data conversion error rate as high as 26 percent for various types of returns in May 1985.

Assessment of Cause(s): The required KV was bypassed due to the need to assign more operators to OE rather than KV to meet program requirements, lower reponse time resulting from KV, and the lack of individual Quality rates so that OE operators with a high error rate could be readily identified.

Corrective Action(s):

Internal Audit Recommendation(s): IRM requirements should be established for key verification of:

a. Block DLN data from Batch Transmittal Records;

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b. Block header information identifying transaction code and date, block DLN and number of documents;

c. The first section of every document input by OE containing the return DLN, taxpayer identification data and type of tax;

d. all sections that fail the zero-balance routines; and,

e. sections of the return with no data input by OE that frequently contains information, such as tax credits on Form 1040.

Response:

a. KV is now required for block DLN data from Batch Transmittal Records;

b. KV is now required for block header information;

c. All centers were instructed to perform key verification of all entity data on all returns. This guideline was issued to all ARC's (D) in a memorandum from the Assistant Commissioner (D:R) dated 8-5-85. However, due to resource limitations, we plan to implement limited key verification. That is, key verification will be performed only on operators who do not maintain acceptable quality levels. This quality level will be the Target Quality Level established by the Incentive Pay Program Committee for the Incentive Pay Program. The National Office will monitor this limited key verification utilizing the Service Center Program Standards Report.

d. We are pursuing a method of verifying this type of data by rekeying the information twice and then marking any imbalance returns for error correction; this method was observed at the Revenue Canada Taxation Center.

e. We have not considered this option to date but will pursue it in conjunction with Computer Services.

(Responsible Official(s): Chief, Income Tax Branch (D:R:R:I) and Chief, Employment, Excise, EP and EO Branch (D:R:R:E) - Completion Date: January 30, 1986)

Identification of Finding(s): (page 9) System data accuracy could be improved by utilizing data verification techniques.

Assessment of Cause(s): Field and National Office managers met in Cincinnati in November 1984 and decided that the Distributed Input System (DIS) should be designed to bypass verification unless the transcription supervisor determines that the data entered by an Original Entry (OE) operator should be verified or that the program, such as Information Returns Processing (IRP), was required to be verified.

Corrective Action(s):

Internal Audit Recommendation(s): Remittance Processing System (RPS) and DIS computer programs should be modified to:

a. provide systemic separation of duties between Original Entry (OE) and Key Verification (KV) personnel to ensure that this control is not by-passed and to provide data for quality review; and,

b. prevent duplication or omission of DLN serial numbers and permit KV and OE operators to correct erroneous tax period data and header information, respectively.

Response: We will review our programs with a view toward providing a systemic separation of duties between OE and KV personnel. In the interim we will strengthen the IRM to insure this control is not by-passed.

DIS programs were modified on May 21, 1985, to require verification of the block header record. No changes are needed for RPS as 100 percent verification of all records has been required since its inception. The new DIS that was sent to the field in August 1985 requires verification of all Forms 1040 and Master Control Records (MCR's) in addition to all block headers. DIS programs are being changed for January 1, 1986, implementation to require key verification of the DLN serial number of all documents. In 1986, there will be computer program-required KV for all block headers, MCR's and RPS. (Responsible Official: Chief, Integrated Systems Branch (D:C:S:IS)-Completion Date: January 1, 1986)

In addition, all returns will be verified using the Limited Key Verification method. This method links the KV requirement to the employee's acceptable quantity and quality standard. The August 1985 program changes for Forms 1040 referred to earlier will be rescinded in January 1986. (Responsible Official: Chief, Management and Resources Branch (D:R:R:M) - Completion Date:
January 1, 1986)

Identification of Finding(s): (page 10) Batch Profile Reports (BPR) show the status of documents during processing and are used to track volumes of work through the system. A separate keypunch card for each block of documents must be input to the BPR system daily in order to produce a new BPR for the next day. In some cases, the BPR's were not generated daily or were not maintained or utilized to monitor inventories.

Assessment of Cause(s): As stated in the Identification of Finding.

Corrective Action(s):

Internal Audit Recommendation(s): Consider automating batch control (BPR's) on a micro/mini computer system. This could provide for the immediate updating of batch location and status by functional areas prior to control on SCCF and eliminate the need for daily computer runs.

Commissioner C

Response: We agree with the recommendation. An Automated Batch Control (ABC) system has been used in BSC and OSC this past filing season; AUSC plans to begin using it next year. The ABC system works as follows: There are a series of minicomputers placed at various work stations and connected by a Local Area Network (LAN). As batches move through the pipeline, the information that is usually contained on batch cards is keyed into each terminal, in the same card image format. This information remains on-line during the day and can be monitored and adjusted on a realtime basis. At the end of shift, this information is input into the regular WP&C system. Thus a regular Batch Profile Report can be printed the following day, if needed.

Some of the advantages of this system are: (1) The information is on line for management use at all times. (2) Batches can be selected by batch characteristic, program or cycle for viewing, modification or printing. (3) Managers have inventory information available without having to wait for computer mainframe time eliminating the need to print the entire Batch Profile Report. (4) Another advantage is having night shift information available to managers as soon as they report to work the next morning.

KCSC is piloting a variation of the batch tracking system using hand-held optical scanners. The pilot is scheduled to end by November 15, 1985. An assessment of that system may reveal the possibility of using a combination of this system and the ABC system. This would avoid having to key information into the system initially and yet provide the flexibility that the ABC provides for on line adjustment and monitoring.

ATSC and PSC are both planning to implement the ABC by January 1986, ANSC may do so by then and FSC, MSC, and CSC, have not made specific plans, although there have been discussions between them and Hardware Division. (Responsible Official: Chief, Management and Resources Branch (D:R:R:M) - Completion Date: January 30, 1986)

Identification of Finding(s): (page 10) Controls to ensure that returns, payments and documents were timely processed were not always effective. Document control during processing could be improved. Controls could be strengthened to ensure timely tax return payment processing. The IRM requires that service centers maintain computer files and management reports of Batch Profile Reports, End of Day Listings, and Cycle Proof Listings. These controls were not always effective in controlling processing.

Assessment of Cause(s): Unfamiliarity with new systems for mainline processing and for subsidiary processing, new procedures and processing flow contributed to delays. Reports were frequently delayed in deference to mainline processing, which allowed some slippage in control. Features on the input system allowed the possibility of misuse, which could lead to "lost" data, the recovery of which was time consuming. The inaccuracy of the EODL was caused by a complicated system which was provided by the vendor as part of the DIS contract.

Corrective Action(s):

Internal Audit Recommendation(s): To alleviate the EODL problems, the DIS computer programs should be modified to provide:

a. a screen prompt or operator lockout to prevent loss of data due to misuse of the keyboard;

b. an audit trail when the transmission of data from the DIS is interrupted; and,

c. a listing of all blocks dropped from the system as a result of running the Master Clean computer program.

Response: The new DIS sent to all Service Centers in August 1985 (transmittal number 85SIS-027-DIS) provided the following corrections for the above:

a. Mode key processing was modified to provide an error message when the mode key is pressed during data entry or verification. The transcription operator is given the choice of continuing with the program or aborting.

b,c. The EODL programs have been rewritten to eliminate the complicated system provided by the vendor at end-of-shift. The Alpha Block Control (ABC) file on each distributed node is sent to the master node. From this file, the status of every block on the node is printed and a mismatch listing is generated showing blocks completed on a node and not going to program DED01 and blocks going to DED01 but not completed on a node.

Internal Audit Recommendation(s): To ensure the proper filing of completely processed documents, the SCCF (open, zero balance and historic) should be used in conjunction with the CPL.

Response: Files IRM procedures have been strengthened to provide timeframes for returning blocks to the Accounting Branch when they are not listed on the CPL after several cycles. Although this has been a standard operating procedure since the SCCF was established, the timeframes were not clearly outlined. In June 1985, all service centers were required to make a physical search of the Files and their servicing Federal Records Center for unprocessed tax year 1984 documents using an Internal Audit "Skipped DLN Listing." The results of this search identified relatively few unprocessed documents which were subsequently forwarded for processing.

Identification of Finding(s): (page 11) Lack of instructions and specific guidelines for deposit reconciliation of remittance records, bank deposits and timely resolutions of bank discrepancies.

Assessment of Cause(s): IRM 38(43)0 contains specific instructions for reconciling blocks of payments contained in the daily bank deposits. However, the employees performing these duties did not always follow these instructions, creating imbalance conditions and bank discrepancies. In the past, more attention has been given to eliminating the out-of-balance conditions than resolving them, and, the corrective actions were never developed.

Corrective Action(s)

Internal Audit Recommendation(s): In order to identify and correct RPS transcription errors and minimize bank discrepancies, the IRM should be revised to provide specific procedures for reconciling bank deposits. Specific procedures and timeliness guidelines should also be established for resolving bank discrepancies. The Service should consider installing equipment in the deposit function that counts checks and reads encoded information to identify unprocessed checks and encoding errors.

Response: Specific procedures for reconciling Bank Deposits currently exist; however, additional detailed reviews have been developed and are included in the January 1986 revision of IRM 38(43)0. Specific procedures and timeliness guidelines will also be established for resolving Bank Discrepancies and IRM's will be issued for use January 1, 1986.

The IRS and Financial Management Service (FMS) completed a joint study and pilot project on Check Sorting. It was determined that Check Sorting equipment should be procured for all centers and a competitive bid process was initiated. This decision was based on Cash Management benefits of increased funds availability. However, funding for this initiative was removed from FY 1985 and 1986 during the budget review process. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (page 13) The National Office could improve the analysis techniques used to evaluate the impact of programming. Certain mainline tax processing computer programs were transmitted to the service centers without undergoing systems acceptability testing and for those programs which were tested, significant problems were encountered.

Assessment of Cause(s): The coordination of programming changes, testing efforts, and systems implementation needs to be strengthened. This is evidenced by problems which surfaced during the 1985 filing season.

Corrective Action(s):

Internal Audit Recommendation(s): A special coordinator should be appointed to oversee the implementation of new/modified processing systems. This would include a staff with sufficient expertise and authority to make changes as necessary. The coordinator should analyze processing trends during the early phases of service center processing so that immediate corrective actions can be effected.

Response: We agree with this concept and Computer Services did appoint an overall Service Center Replacement System (SCRS) Coordinator whose duties included the analysis of processing trends. Coordinators were appointed in each region and service center to assist with the implementation of the new computer systems. However, there was not enough time for additional testing or adequate testing of new programs because the old equipment had to be removed so the new equipment could be installed. The establishment of the User Assistance and Computer Capacity Management Office (UACCMO) will provide a monitoring role as future initiatives are implemented.

Identification of Finding(s): (pages 14-15) Service centers have bypassed the ERS automated control system in selecting suspense records to be worked.

Assessment of Cause(s): Several service centers created a manual system for controlling the ERS because the control function did not understand the paper reports and the listings were so voluminous that the clerks just gave up on the system.

Corrective Action(s)

Internal Audit Recommendation(s): The IRM should be revised to clearly state that the ERS automated control system and the Workable Inventory List be used to monitor and control ERS suspense cases.

Response: IRM 3(12)(37)0 will be clarified for January 1986 to emphasize the use of the ERS system and the Workable Suspense Inventory List as designed. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (pages 14-15) ERS Unworkable Suspense Records are controlled by status code and remaining days in suspense, not by program code as provided in the Unworkable Suspense Inventory listing.

Assessment of Cause(s): The Unworkable Suspense Inventory listing produces much unused paper because of program identification.

Corrective Action(s):

Internal Audit Recommendation(s): The program code sort for the Unworkable Suspense Inventory (ERS 0740) should be elimnated since programs lose their identity and usefulness when returns reach the suspense files. (The report erroneously listed the Workable Suspense Inventory, ERS 0724.)

Response: We have prepared a Request for Data Services to have the program sort eliminated, effective Jaunuary 1986. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (pages 14-15) The Workable Suspense Inventory Summary is not being used in most service centers.

Assessment of Cause(s): This listing does not give the centers an effective method of inventory control because of the large number of pages.

Corrective Action(s)

Internal Audit Recommendation(s): Workable Suspense Inventory Summary (ERS 1343) should be eliminated because the same information can be obtained from IDRS.

Response: The Workable Suspense Inventory Summary has been reprogrammed to provide an effective summary on a single page of all workable suspense records. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (pages 14-15) The Workable Suspense Inventory Listing is not being used properly because of the huge amount of paper printed each day.

Assessment of Cause(s): This listing is programmed to be associated with Workable Suspense documents each day and re-associated daily until resolution. If followed to the intent of the program, this would create a huge commitment of resources by the Reject Control function.

Corrective Action(s):

Internal Audit Recommendation(s): Workable Suspense Inventory Listing (ERS 1342) should be revised so that only the DLNs by status and Master File for zero-day cases in the workable inventory are generated.

Response: We have submitted an RDS to have this listing printed only on day zero and each multiple of 5. This will correspond with the IRM requirement that all Workable Suspense records be resolved or resuspended within 5 workdays. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (pages 14-15) The Error Resolution System provides no comprehensive method of identifying and resolving old records on the system.

Assessment of Cause(s): The Workable Suspense Inventory List and Summary identify only the cases that have remained in the Workable inventory for a long period of time. These listings have proved ineffective as a method of identifying old cases because records go into and out of Workable status.

Corrective Action(s):

Internal Audit Recommendation(s): An Aged Workable Suspense Inventory should be created which shows the master file, DLN and status code; and, include age intervals corresponding to the requirements in IRM 3(30)(123)0.

Response: We strongly support an ERS age list, not just for Workable Suspense, but for all records in the ERS inventories. An RDS has been prepared to request a listing with the age intervals of 60-89, 90-119, and over 120 days. We have requested an operational date of April 1, 1986. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: April 1, 1986)

Identification of Finding(s): (pages 14-16) Pre-determined suspense periods do not accurately reflect the time required to resolve many ERS Suspense records.

Assessment of Cause(s): Many ERS documents are not received from the control function or from other areas of the service center when they become "workable" on the ERS system.

Corrective Action(s):

Internal Audit Recommendation(s): The predetermined suspense periods for some of the action codes should be reevaluated. The automated control system cannot work effectively unless the suspense periods are realistic. For example, the "zero-day" and the "route-to" Action code suspense periods should be increased to allow returns to be routed and associated with chargeouts.

Response: We have submitted an RDS, number RPA-5-0486 signed August 20, 1985, requesting longer suspense periods for most action codes. The requested effective date was January 1, 1986. (Responsible Official: Chief, Revenue and Accounting Branch (D:R:R:R) - Completion Date: January 1, 1986)

Identification of Finding(s): (page 16) The Service could improve the program used to identify large refunds that should be issued manually to prevent the payment of interest. The IMF Interest Jeopardy Report is divided into two parts, the Error File and the Suspense File. Currently these reports contain extraneous information on overpayments such as, refunds where the legal time to issue has expired; refunds where the 45-day interest-free period has expired; and, returns that require correspondence.

Assessment of Cause(s): Since the Service did not have adequate time to fully test the ERS System, problems did not surface until processing began.

Corrective Action(s):

Internal Audit Recommendation(s):

(a) The Service should eliminate the Error File Report (ERS 174) and modify the Error Resolution Error Inventory Report (ERS 1340) to identify and flag returns within the block where the interest-free period is in jeopardy. The report should only identify refunds of $1,500 or more. Overpayments and barred refund statute cases should be eliminated.

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(b) The Suspense File Report should be retained but the criteria modified. The report should only identify refunds of $1,500 or more and the refund amount criteria should be raised on returns where the 45-day interest-free period has expired. The report should not contain information on barred refund statute cases and returns awaiting taxpayer responses.

Response: On August 23, 1985, an RDS with a requested implementation date of January 1, 1986, was submitted to amend Error File Report (ERS 174). The following will be deleted from the ERS 17-44 Report:

Records which have passed the Expiration Date for the 45-day interest-free period (45-days from the Return Due Date, Return Received Date or Return Processed Date). Note: Exception - any refund records of $500,000 or more should continue to generate.

Records which carry Computer Condition Code "3", (frozen refunds).

Records for which the Credit Elect amount is significant and the Refund Amount is less than $1,500.00.

All records in Unworkable Suspense for correspondence to the taxpayer (Status 221) will be deleted from ERS 17-45 (Suspense) listing.

Records which apply to the 1040, 1040A, 1040EZ and FOD Returns will be deleted from GMF-61-41 Reject Interest Reduction Initiative Report.

On June 25, 1985, an RDS with a requested implementation date of January 1, 1966 was submitted to revise the format of ERS 13-43 Report to Reflect Days in Inventory and Status in condensed format. (Responsible Official: Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1, 1986)

Identification of Finding(s): (page 17) The Service could reduce the number of Unpostable Conditions caused by Name Control Mismatches. Currently, a computer program compares the Taxpayer Identification Number (TIN) at the Master File with the taxpayer name control from the service center transaction tape to ensure documents post to the correct account. If there is a mismatch, the transaction is unposted and sent back to the service center for resolution. The name control is a four character abbreviation taken from the taxpayer's name. In lieu of the name control, taxpayers using the IRS label provided with the tax package have a two character check digit. Check digits are entered into the third and fourth positions of the name control field (a group of characters that is one unit of information) so the computer can differentiate between a check digit and a name control.

Management could reduce the number of name control unpostables by adjusting the mismatch criteria. Many unpostable mismatches were caused by illegible names on documents, data transcription errors or check digits placed in the improper name control positions. An estimated 18% (44,000 of 245,000) of the name control mismatches at two service centers were cases where three of the four name control characters matched and along with the TIN would result in correct account posting. Additionally, an estimated 10,500 mismatches were caused by check digits input as taxpayer name controls (not in third and fourth positions). These unpostables require resources to resolve and delay return settlements.

Assessment of Cause(s): Check Digits placed in the improper name control positions as well as internal errors when entering the data in DIS.

Corrective Action(s):

Internal Audit Recommendation(s):

(a) If the name controls match on three of the four positions, post the document with the name control as shown at Master File. With the combined TIN and three digit name control matches, audit tests indicate that the documents will post to the correct account. An earlier review of Business Master File tentative carryback documents also supports this recommendation.

Response: A Request for Data Services has been submitted (BMF) to match the first three characters of the name control to MF. If it matches on first three characters and TIN we would by-pass check and post. We requested this change for 1/1/86; however, Computer Services has agreed to January 10, 1986. This is the first operating date for BMF in the processing year. The action plan from the Unpostable Task Force has recommended any incoming document to post on IMF if the first three characters on the input name control matches the name control on the invalid segment. Requested for January 1, 1986, tentative implementation date is July 1, 1986 if approved by Computer Services. (Responsible Official -Chief, Income Tax Branch (D:R:R:I) - Completion Date: July 1, 1986).

(b) The two character name controls should be computer compared to the check digits. If they match, the name control should be moved to the third and fourth position to eliminate the unpostable condition.

Response: There will be an IMF program for 1986 processing to validate check digit against the TIN in DIS . In addition, the check digit and name control will be elements that will have separate fields for entry. The GUF program will also move any two digit name control to the check digit field and attempt to post the document. This was in the program since March 1985. (Responsible Official: Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1986)

Identification of Finding(s): (page 18) Two service centers were expending unnecessary resources to input a transaction code 590 on all unpostables instead of those that could affect the notice.

Assessment of Cause(s): The IRM specifies the use of a 590 in the general section and allows the possibility of confusion. This causes the service centers to input the code in all cases.

Corrective Action(s):

Internal Audit Recommendation(s): The IRM should be clarified that a TDI delay indicator (TC 590) is necessary only when the unpostable return is for a different tax period.

Response: The GUF handbook IRM 3(12)(179) will be changed for the January 1, 1986 revision. (Responsible Official - Chief, Income Tax Branch (D:R:R:I) - Completion Date: January 1, 1986)